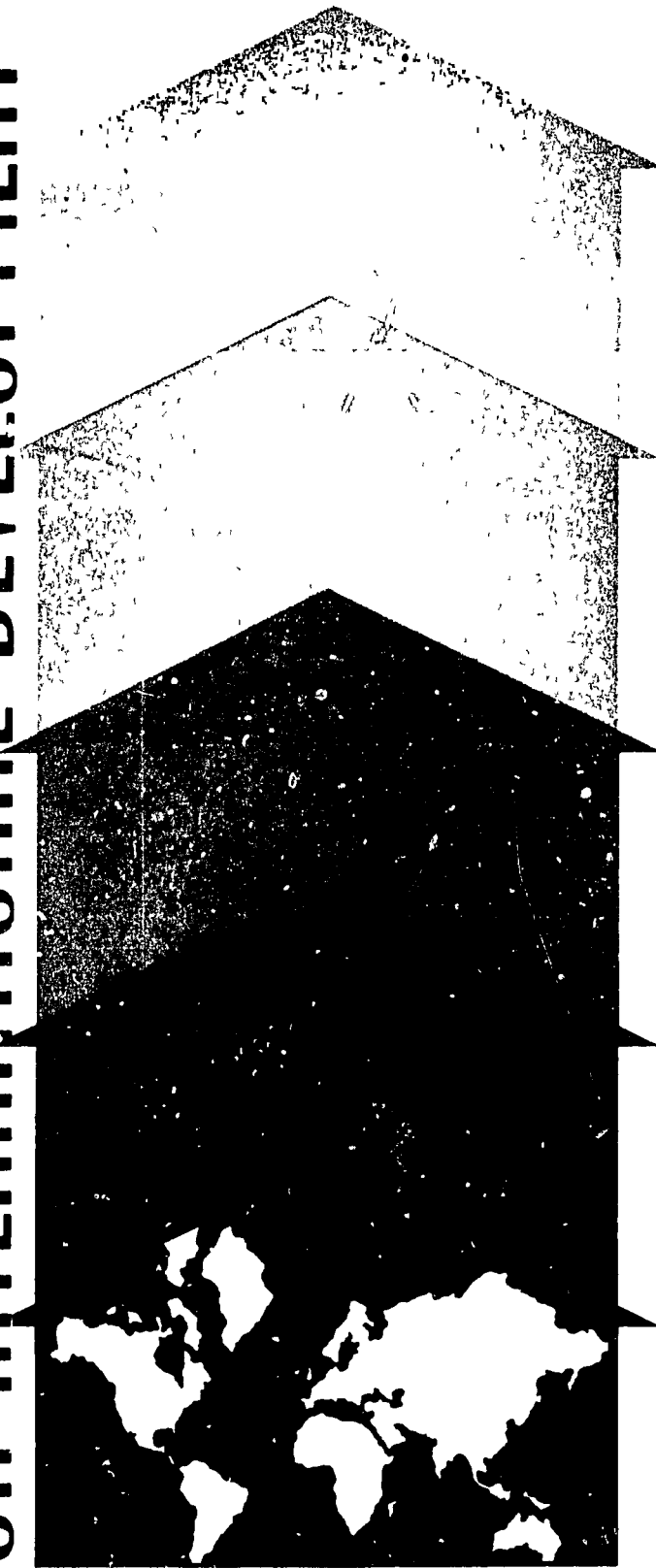


AGENCY FOR INTERNATIONAL DEVELOPMENT WASHINGTON, D. C. 20523 BIBLIOGRAPHIC INPUT SHEET		FOR AID USE ONLY <div style="font-size: 1.5em; font-weight: bold; margin: 0;">Batch 81</div> ARDA
1. SUBJECT CLASSIFICATION	A. PRIMARY Urban development and housing	ID00-0000-G704
	B. SECONDARY Housing—Korea Rep.	
2. TITLE AND SUBTITLE A case study of the Korean housing investment guaranty program 1971-1977		
3. AUTHOR(S) (101) PADCO, Inc., Washington, D.C.		
4. DOCUMENT DATE 1977	5. NUMBER OF PAGES 162p. 163	6. ARC NUMBER ARC 338.4769.V257
7. REFERENCE ORGANIZATION NAME AND ADDRESS PADCO		
8. SUPPLEMENTARY NOTES (Sponsoring Organization, Publishers, Availability)		
9. ABSTRACT <p> A case study of the Korean Housing Guaranty Program was done to find the lessons to be learned from the experience and to provide guidance for the formulation of multi-year housing guaranty programs in other nations. The program, one of the largest and most significant of the Office of Housing, covered seven years and included five individual loans as well as multiple technical assistance missions. The report discusses these individual events along with the conclusions reached. Included are the context of the housing programs, separate discussions of the years 1971-72 and 1973-76, the specific projects financed, the home improvement program, an overview of the issues, and possible program strategies. The Korean program is a study of the relationship between an international assistance agency and a developing country government each with its own objectives and constraints. Sustained support from AID and constant dialogue brought about fundamental changes in Korean housing policy and have introduced entirely new concepts of preserving existing housing stock through upgrading. While the overall impact of the housing program was positive, the study has pointed to some shortcomings which can be prevented with more advance planning. A possible approach to forward planning for multiple year lending programs is presented. What is needed is an approach in which, through multiple year housing guaranty lending, a comprehensive series of changes can be achieved within the host country at a pace which can be supported politically and implemented technically. </p>		
10. CONTROL NUMBER <div style="font-size: 1.2em; font-weight: bold;">PN-AAF-502</div>		11. PRICE OF DOCUMENT
12. DESCRIPTORS AID Case studies Financing Foreign aid		13. PROJECT NUMBER
		14. CONTRACT NUMBER AID/SER/H
		15. TYPE OF DOCUMENT

AGENCY FOR INTERNATIONAL DEVELOPMENT

AID/SER/H
PN-AAF 502



OFFICE OF HOUSING

**A CASE STUDY OF THE KOREAN HOUSING
INVESTMENT GUARANTY PROGRAM 1971-1977**

**A CASE STUDY OF THE KOREAN HOUSING
INVESTMENT GUARANTY PROGRAM 1971-1977**

Prepared for:

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Agency for International Development
Washington, D.C.**

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April 1977

DEPARTMENT OF STATE
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WASHINGTON, D.C. 20523

FOREWARD

The Office of Housing undertook this case study of the Korean Housing Guaranty Program in order to delineate the lessons to be learned from the experience and, in this way, provide guidance for the formulation of multi-year housing guaranty programs in other nations.

The Korean Housing Guaranty Program, in which \$105 million of loans have been authorized since 1973, is one of the largest and most significant in the Office of Housing. Thus far, 19,000 units have been built, which increasingly have been geared for purchase by lower-income families. In addition to guaranteeing loans for projects, the Office of Housing has assisted in the development of housing institutions in Kcra and a fundamentally-changed national housing policy, and conducted a study of housing finance. New concepts of preserving and upgrading existing housing stock have been introduced in Korea. This has been achieved through sustained dialogue and negotiation between AID and the Korean government, and, in making this study, emphasis has been placed on the process of interaction between the two rather than on analyzing program results against fixed criteria.

We are most appreciative of the work of Planning and Development Collaborative, International, which performed the study in April, 1977. Alfred P. Van Huyck was the team leader, Jeffrey R. Stubbs was the urban economist, and Manorak Luangkhot was the researcher.



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ACKNOWLEDGMENTS

In the course of preparing this case study, a number of people were interviewed who gave generously of their time. Although their contributions were valuable in preparing this report, PADCO assumes sole responsibility for the materials actually presented and the conclusions reached. The following list of persons were interviewed during the course of the work.

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INTRODUCTION

The preparation of a case study on the Korean Housing Guaranty Program experience has proven to be a difficult undertaking. The work was complex because the program has spanned seven years and included five individual HIG loans as well as multiple technical-assistance missions. In the chapters which follow, these individual events will be discussed along with the conclusions we reached

The Korean program experience is a story of considerable success on the part of AID and the Korean National Housing Corporation (KNHC). Construction was achieved of 19,000 housing units, which were made available to progressively lower-income households. It is also a story of how sustained support from AID and constant dialogue have brought about fundamental changes in Korean housing policy and have introduced entirely new concepts of preserving existing housing stock through upgrading. In short, there are many accomplishments about which both AID and the Koreans can be justly proud.

At a different level, the Korean program experience is an interesting study of the relationship between an international assistance agency and a developing country government. Each had its own objectives and constraints while interacting over a protracted period. This interaction demonstrates how a common interest (in this case, support of the housing sector) can be achieved only through an elaborate set of negotiations based on mutual respect and understanding. It has not been easy to achieve this common interest. It has required hard bargaining on both sides, based on underlying assumptions which are discussed in the following paragraphs.

A. THE UNDERLYING ASSUMPTIONS

International support of housing in the developing countries starts with a recognition of three basic assumptions:

1. The developing countries have the obligation to determine their policies, plans and strategies for dealing with their own housing issues.
2. The scale of housing problems found within the developing countries is of such magnitude, in regard to the populations to be served, the human and capital resources to be mobilized and the existing constraints to be overcome, that internationally-sponsored assistance can only be considered a supplementary contribution to codify and exchange world experience, to augment to a minor extent the human and capital resources available, and to act as a catalyst for sustained action on the part of the developing countries in their own behalf.
3. Given the limited contribution feasible through international cooperation, it is legitimate and appropriate for international agencies to determine for themselves the priorities and conditions of their participation within articulated requirements outlined by the developing countries.

These implied assumptions have been the basis for the ongoing dialogue and negotiation which have taken place during the Korean program. This has been the framework in which AID and the Korean Government have sought to establish common objectives for the program.

B. AID'S BASIC OBJECTIVES

The basic objectives of the Office of Housing within the assumptions outlined above have been the following:

- To assist in building Korean institutional capacity, within both the public and private sectors, to deal effectively with the fundamental issues of shelter and the poor majority.
2. To assist in mobilizing Korean human and financial capacity to support the improvement of housing and the standard of living for the poor majority of Korean people.

3. To provide professional, specialist support to assist in preparing a Korean National Housing Policy and to ensure its implementation.
4. To provide selective capital assistance for program and project implementation.

It must be realized that the capital needs of developing countries, including Korea's, are so vast that international capital assistance can, at whatever level, have very little overall impact in strictly monetary value. It is appropriate, therefore, to utilize capital assistance to achieve development purposes. Three such areas were given priority in utilizing HIG capital assistance in Korea.

1. Finance the introduction of new, innovative technologies or approaches. An element of political risk is involved in doing something differently, whether it be new approaches to housing construction, infrastructure or any other aspect of habitat. The Housing Guaranty Program, through capital assistance support, can absorb part of that risk and encourage developing countries to attempt innovative approaches by providing necessary capital.

In Korea, AID utilized its HIG Program to introduce a number of innovations in apartment and condominium design and to support the introduction of these solutions in provincial cities where they had not been attempted before. It was, also, possible through HIG loans to introduce a Home Improvement Program in Seoul. In 1977, a Home Improvement Program will be introduced in provincial cities as well. These are examples of HIG money being used to induce risk-taking by Korean institutions, in order to attempt new innovations in solving shelter problems.

2. Provide capital to Korean housing institutions to accelerate their rate of growth. This growth can be sustained through mobilization of local resources. AID's work with the Korean National Housing Corporation has demonstrated this objective. At the time of preparing the first HIG loan in 1972, KNHC was building 2,300 units per year. Even though KNHC was building 26,000 units per year in 1976, the percentage of total funds represented by the HIG loan had fallen from 29 percent of KNHC resources in 1973 to 19 percent in 1976.

On the other hand, AID was unable to interest the Korean Housing Bank in participating in the HIG Program and the non-involvement of this important institution has hindered the achievement of AID's overall objectives in Korea, as will be discussed later in this report.

3. Provide capital assistance to augment technical assistance in building capacity. This assistance can provide opportunities to undertake new program directions. The Home Improvement Program in Seoul required a combination of technical assistance and capital assistance in order to be successful. Without technical assistance, it would have been unlikely that Korean professionals on the Seoul City staff could have implemented the Home Improvement Program because it represented such a major departure from their experience. On the other hand, if it were not for the HIG loan availability, it is unlikely that Seoul City would have accepted the technical assistance. In this case, the HIG loan represented "leverage" which allowed a much-needed innovation to be demonstrated in Korea.

It is fair to say that the Office of Housing has only been partially successful in achieving its overall development objectives in the Korea HIG Program, even though it has achieved the individual project objectives of each loan. This is not to say that AID's accomplishments have not been significant and numerous. This report will examine both the achievements and the shortfalls. One reason for less-than-total success is that AID's present objectives were not clearly set, prior to the start of the program in 1972, and have, in fact, been emerging in recent years to reflect the Office of Housing's own Shelter Sector Policy (1974) and the Congressional mandate concerning the "poor majority." Therefore, while the most recent projects are in conformity with overall objectives, some of the earlier ones do not meet current criteria. Also, AID's objectives and the Korean objectives have never fully coincided and have given rise to constant negotiation.

C. KOREAN GOVERNMENT OBJECTIVES

In 1971/72, when the AID-sponsored HIG Program was just getting under way, the Korean Government had just passed the 1972 Housing Construction Promotion Law. This law, which is discussed in more detail later, was a significant milestone in that it gave the first strong recognition to the importance of housing in Korea and formally endorsed the concept of foreign borrowing for housing construction. Although clearly a step forward, the law rested on certain premises which were contrary to AID's own emerging objectives. Among the most significant of these were the following:

1. The Korean Government was clearly committed to raising the standards of the physical quality of housing, particularly in terms of the size of

units sponsored and the use of high-quality construction materials and techniques. Obviously, such housing could not be made available to low-income people except at enormous subsidy.

2. No specific recognition was given to the particular needs of low-income people and, in fact, the program was clearly oriented to middle-income and even upper-income people.
3. The city planning laws at that time permitted only the highest standards of infrastructure development, large lot sizes, and rigorous building codes, etc. The implicit policy was specifically aimed at clearing all of the "illegal" housing in the cities, particularly in Seoul, which fell below the high standards set in the laws.
4. Most decisions regarding housing were taken without sufficient data or analysis to fully document the implications of specific actions or non-actions. There was no housing policy, other than a general objective to build as many units of high-quality housing stock as allocated funds would permit.

The Korean Government's fundamental position, in improving the physical size and standards of housing and demolishing all units which failed to meet its standards, was based on the assumption that rapid economic growth would translate into increased household incomes which, in turn, would allow high-standard housing to be constructed. Furthermore, severe weather conditions in Korea added to the conviction that only high-standard housing should be built. These ideas, coupled with a traditional sense of the need to sacrifice which has contributed so much to the success of Korea's economic growth, have permitted the Government to hold to its objectives in housing, with sincerity and a feeling of confidence that they are on the correct path.

Obviously, these objectives do not coincide with AID's objectives as previously listed, even though both parties recognized from the outset merit in both positions. The projects which evolved in Korea with HIG support and ancillary technical assistance have been the result of mutual efforts to reach common ground on the underlying objectives to be sought.

It is fair to say that the availability of substantial capital from HIG sources has been the catalyst in achieving movement in the Korean objectives toward those sought by AID. The Korean Government has clearly needed and wanted the HIG loans as a small, but important, part of their overall economic development strategy. This, in turn, has permitted AID to seek changes in policy and innovative programs, with the anticipation that their demonstration would show the Korean Government the advantages of continuing in a similar direction with its own resources.

The impact of AID initiatives on the Korean Government has been mixed. There has been an overall lowering of housing standards and an introduction of smaller, average unit sizes beyond those specifically financed by HIG loans. There have been some significant policy changes, but these have not yet achieved a full impact throughout the housing sector in Korea. There has clearly been institutional improvement in KNHC, to the point that it must be considered one of the most effective house-building organizations in the world (including the developed countries). The Home Improvement Program, one of the most important innovations, has gained some influential supporters, but has not yet been accepted to the point that the Government would cancel its approach to demolition of "illegal" houses. On balance, there has been substantial progress but the full realization of policy objectives is still in the future and not yet certain.'

D. A FUNDAMENTAL POLICY ISSUE

The chapters which follow will document the various issues alluded to above and will define more fully the successes and shortcomings of the Korea HIG Program. It is well to pause at the beginning to consider the fundamental issue of whether or not a housing program should have been undertaken in Korea, given the difference in policy objectives between AID and the Korean Government. This issue is, of course, somewhat blurred in that AID did not initially have the same set of policy objectives as those it now has much more clearly stated.

In fact, had AID been working under its present policy objectives in 1971, it is unlikely that any HIG Program would have commenced, because the policy-objective gap would have been too great to compromise. It is only because AID was able to initiate its activities with the Banpo Apartment Project (clearly an upper-middle-income project precluded under present policy) that it was possible for rapport and confidence

to develop that later led, in subsequent loans, to the series of accomplishments which have been in line with overall AID policy objectives.

This is not a simple question, nor one that is specifically related to housing. If we accept the view that the Government's initial objectives at a given time were honestly formulated in what it perceived as in the best interests of its people, how can other possible objectives be considered and introduced except through negotiation and compromise? AID elected to follow this negotiation route and has a number of significant accomplishments to its credit as a result, even though it has not been successful in totally convincing the Koreans of the fundamental correctness of its approach.

An alternative, of course, would be to take a rigid stance on the detailed policy objective sought and insist that the host country accept those policies or forego the capital assistance available. This approach has not proven very successful when it has been utilized in the past, especially when the issues gap has been great at the outset. It certainly would have been a failure in Korea.

AID has had the opportunity to develop mutually-supported objectives with the Koreans through a series of successively lower-standard projects. This has meant that AID's objectives have been progressively achieved over time. Hopefully, a basis has been formed for a lasting impact on the housing sector in Korea. This seems to be the correct way to proceed with a host country government. It remains to be seen, however, if this approach can be followed in the future, given the specifics of the present AID mandate.

The success of the overall AID approach in Korea, of utilizing this negotiated "stepping down" approach, while very real does not suggest that it could not have been handled better with more forward planning. The single, most important conclusion of this case study is that it is essential to initiate a forward-planning process at the outset, when it is likely that AID and a host country are going to enter into

a multiple-year lending program. The failure to prepare an overall AID strategy for achieving policy objectives in Korea clearly has acted to limit the individual success of the specific policy objective accomplishments. This theme is taken up again in Part Three of this report (Lessons for the Future of the HIG Program).

E. ORGANIZATION OF THE REPORT

This report has been organized into an Introduction, Chapter I, three parts and three appendices. First, the framework is set in the Introduction and Chapter I: The Context of Korean Housing Program. Part One traces the AID and Korean dialogue on housing policy and related issues from 1971 to 1977. Part Two describes each of the HIG-financed projects, their individual objectives and related issues. Part Three presents some consideration of possible lessons for future HIG Programs, based on the conclusions of the Korean Case Study. Appendix I describes the experience of other international agencies with housing in Korea. Appendix II summarizes the statistical data regarding each HIG project. Appendix III presents general statistical data about the housing sector in Korea.

This approach seemed the most efficient in order to focus the material. However, it does run the risk of understating the crucial interaction which has taken place between negotiations for individual projects and the housing policy issues. Wherever possible, the connection has been referenced in the text, but the importance of using the specific loan negotiation to foster policy change cannot be overstated.

CHRONOLOGY OF EVENTS

1952 to 1977

1. Immigration of refugees followed by industrialization, rapid urban growth and increasing urban housing shortages.

1962

2. Enactment of the 1962 City Planning Law.

1963 to 1966

3. Enactment of the Comprehensive Development of National Territory Act which led to development of the National Land Development Plan, 1972-1981.
4. Establishment of the Korean National Housing Corporation within the Ministry of Construction. KNHC superseded the Korean National Housing Administration. KNHC's initial authorized capital was W 500 million and its paid-in capital was W 477 million.

1967

5. Enactment of the Korean Housing Bank Act which established the Korean Housing Bank.

1968 to 1970

6. Initiation of Seoul housing and squatter clearance programs:
Large-scale clearance of slum areas;
Construction of 8 to 10 pyong "citizen's apartments with interiors to be completed by the occupant;
Resettlement projects outside the Seoul green belt in areas such as Sung Nam.

1971

7. Submission in October of AID's Pre-Investment Housing Survey by NISA and FCH consultants.
8. Completion of ten-year Plan for Construction of 2,500,000 Houses.
9. Enactment of amendments to City Planning Law permitting price freezes on land intended for public purposes.

1972

10. Completion of National Land Development Plan 1972-1981.
11. Enactment in December of the National Housing Construction Promotion Law which established the National Housing Fund and created a National Housing Policy Council.

1973

12. AID's return mission during March to June and completion of the first project feasibility study.
13. Enactment on March 5th of the Housing Improvement Promotion Enforcement Law which described procedures for the designation of redevelopment areas and enabled the transfer of land to local governments.
14. Enactment of Enforcement Decree of Housing Construction Promotion Law which set conditions for issuance and purchase of National Housing Bonds and set limits on the types of housing to be financed out of the National Housing Fund.
15. Signing of Implementation Agreement 001: 1490 23-pyong apartments. (Loan amount U.S. 10 million).

1974

16. FAHCO report in January on ROKG progress in the field of housing, vis-avis recommendations in the Pre-Investment Survey and recommendations for the content and organization of a national housing policy.
17. Restructuring of the Housing Policy Committee in March and creation of the Housing Policy Task Force.
18. Signing in April of Implementation Agreement 002: 1700 13-and-15-pyong apartments. (Loan amount U.S. 20 million).
19. Issuance in August of worldwide AID Shelter Sector Policy.

1975

20. Signing in April of Implementation Agreement 003: 6565 13-and-15-pyong apartments. (Loan amount U.S. 25 million). Evaluation survey of the 1974 Housing Guaranty Program.
21. Issuance in May of the National Housing Policy and Long-Term Construction Plan which superseded 1973 Ten-Year Housing Construction Plan.
22. Assignment in August of a permanent AID regional housing bureau representative to post in Seoul.

1976

23. Assignment in March of an AID regional housing bureau advisor to post in Seoul.
24. Signing in July of Implementation Agreement 004: Squatter upgrading in Seoul. (Loan amount U.S. 10 million).
25. Signing in July of Implementation Agreement 005: 4700 7.5-10-and 13 pyong apartments. (Loan amount U.S. 15 million). Evaluation survey of 1975 Housing Guaranty Program.
26. Completion in October of the Fourth Housing Construction Plan which superseded the Long-Term Housing Construction Plan and the May 1975 National Housing Policy. Stressed mobilization of financing and increased supply of land for small building sites. Assumed a reduced investment per unit in private housing.

1977

27. Submission of Pratt Report on Housing Finance. Recommended one-time subsidies in place of interest-rate subsidies and a simplified loan structure.
28. Expected signing of Implementation Agreement for squatter upgrading in secondary cities. (Loan amount U.S. 10 million).
29. Expected signing of Implementation Agreement for additional KNHC housing. Initiation of third evaluation survey of KNHC AID-financed apartments.
30. Expected undertaking of housing preferences survey and housing construction industry study.

Chapter I

THE CONTEXT OF KOREAN HOUSING PROGRAMS

It is necessary to understand the overall context of the Korean housing sector before the specific successes and shortfalls of AID's involvement can be assessed, because it is the perception of the context which gave rise to the initial differences in objectives between AID and the Korean Government, even though there was general agreement on the facts.

A. POPULATION AND ECONOMIC GROWTH TRENDS

The total population of Korea is presently 34,900,000. It has increased at a peak rate of 2.2 percent per annum. Overall growth is now estimated at 1.7 percent per annum and is expected to decline to approximately 1.6 percent by 1981.

Current government policy is to encourage the growth of lagging regions and smaller cities. The past rate of urban population growth has been as high as 5.0 to 6.0 percent per annum. The expected rate of urban population growth through 1981 is of the order of 4.0 to 5.0 percent, with the larger cities growing more slowly than in the recent past and with the smaller cities growing more rapidly as a reflection of current regional policy. ^{1/}

The rural population is expected to remain relatively constant. By 1981, the overall population of Korea may be of the order of 60 percent urban with continuing industrialization,

^{1/} The source of population data and forecasts is the Korea Industrial Development Research Institute's Study on Housing Policy Formulation. KIDI, December 1974. For the most recent update, see the Ministry of Construction's Fourth Housing Construction Plan. Housing Section, Ministry of Construction, October 1976.



Figure 1. Street scene in one of the secondary cities. National policy encourages their growth.



Figure 2. Low-income housing in Seoul.



Figure 3. Small three-story apartments opposite Ahun #2 redevelopment area in Seoul showing the high densities achieved by private builders.



Figure 4. Sung Nam, near Seoul. Surfaced streets and better sanitation would be a great improvement.



Figure 5. Luxury housing in Seoul.



Figure 6. Rural housing of mud block construction.



Figure 7. High-quality house built on small 20-pyong lot; near main road in Sung Nam, near Seoul.

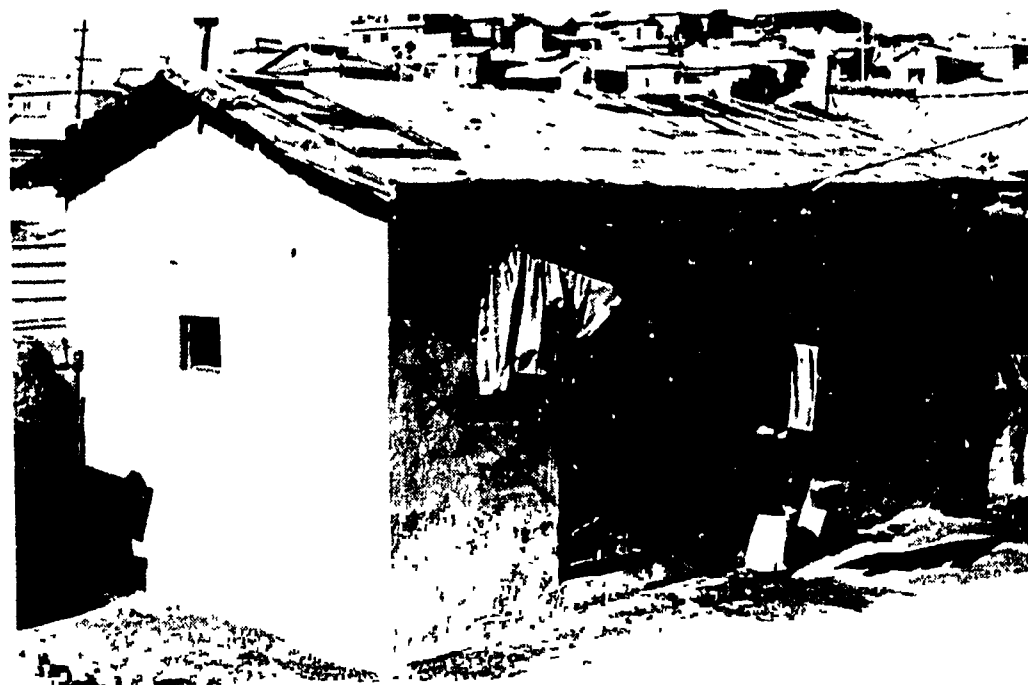


Figure 8. Small owner-built house: Sung Nam, near Seoul.

implying continued urban growth for most of the remainder of the century. The most recent forecast of income available is the Fourth Five-Year Plan. (See Table 1) Based on an overall GNP rate of growth of 9.0 percent per annum between 1977 and 1981, it is estimated that private consumption expenditure will increase at an annual rate of 6.1 percent in real terms. This reflects high priorities for savings and investment and government expenditure at the expense of current private consumption. Given an expected rate of population growth of 1.6 percent per annum, this implies a growth rate of per capita consumption expenditure of 4.4 percent per annum.

This combination of declining population growth rates and strong economic growth rates supports, on the surface, the conclusion of the Korean Government that the nation could afford relatively high standards of construction and space allocation. Indeed, AID also recognizes that Korean housing requirements, given their remarkable economic development history, will not be the same as those in other much less fortunate developing countries. Nonetheless, AID and a significant number of Korean Government officials recognize that, in spite of the economy's aggregate growth, there will be, for many years to come, a significant need for housing specifically oriented to lower-income groups. This recognition comes from analyzing the household income data and the existing housing stock.

B. HOUSEHOLD INCOME DISTRIBUTION AND AFFORDABLE HOUSING

The primary source of income data available in Korea is the Economic Planning Board (EPB), Bureau of Statistics' Quarterly "Family Income and Expenditure Survey." This survey presents expenditure data for almost all types of households and income data for wage and salary earners. The World Bank believes that the EPB survey results are possibly high by about five percent, based on the methodology and coverage employed. In 1976, the AID RHUDO office updated income statistics for the urban areas of Korea. The results are presented in Table 2 which shows that the estimated mean income in the urban areas of Korea at the end of 1976 was W 92,100 per month (a median of W 77,500 per month). Approximately 20 percent of all households had incomes below W 47,600 per month while 20 percent had monthly incomes above W 121,800.

The amount of housing that can be afforded by each income group is an important issue of housing policy. Based upon 1972 EPB survey data presented in Table 3, it appears that the

TABLE 1

Fourth Plan
Growth Rate and Magnitude of Economy

	1975A	1976	1977	1978	1979	1980	1981B	Average 1977-1981	Remarks (B/A)
Gross National Product									
In billion won (current prices)	9,052	11,242	13,480	15,726	18,332	21,389	24,939	-	2.8
In million \$ (current prices)	18,702	22,485	26,959	31,453	36,664	42,778	49,878	-	2.7
In billion won (1975 prices)	9,052	9,776	10,656	11,615	12,660	13,800	15,042	-	1.7
Growth Rate (percent)	(7.4)	(8.0)	(9.0)	(9.0)	(9.0)	(9.0)	(9.0)	(9.0)	-
GNP Deflator (1975 = 100)	100.0	115.0	126.0	135.4	144.8	155.0	165.8	-	-
Increase Rate (percent)	(24.4)	(15.0)	(10.0)	(7.0)	(7.0)	(7.0)	(7.0)	(7.6)	-
Population (thousand persons)	35,281	35,875	36,450	37,030	37,618	38,219	38,835	-	1.1
Increase Rate (percent)		(1.69)	(1.61)	(1.59)	(1.59)	(1.60)	(1.60)	(1.60)	-
Per Capita GNP (current prices)									
Thousand won	257	313	370	425	487	560	642	-	2.5
Dollars	530	627	740	849	975	1,119	1,284	-	2.4

SOURCE: EPB, Major Economic Indicators of the Fourth Five-Year Plan.

TABLE 2

**1976 Income Distribution
(won per month)**

Category ^{1/}	1976 Income	Percent Households in 1976
Lowest	0 - 42,100	10.8
Lower	42,101 - 70,200	31.7
Lower Middle	70,201 - 98,300	25.9
Upper Middle	98,301 - 154,500	20.6
High	154,501 and over	11.0
Median	77,492	
Mean	92,100	

NOTE: ^{1/} The use of income groups as target groups related to housing was first introduced as a part of the May 1975 National Housing Policy exercise supported by AID technical assistance. The use of target groups has permitted a sharpening of the focus regarding the relationship of house types and projects to their proposed beneficiaries. The categories shown are a PADCO update of categories used in the National Housing Policy Paper and they have not been reviewed by AID or the Government of Korea.

SOURCE: U.S. Agency for International Development, HIG 005 Project Paper, Annex 5, p. 55, USAID, 1976.

TABLE 3
**Expenditures for Housing
by Income Group**

Income Group (won per month)	Expenditures on House Rent	Percent of Income
0 - 19,999	2,600	13.20
20,000 - 27,999	3,500	12.32
28,000 - 35,999	4,970	13.19
36,000 - 43,999	6,070	12.97
44,000 - 51,999	7,660	13.64
52,000 - 59,999	8,730	13.28
60,000 - 67,999	9,260	12.29
68,000 and over	21,340	16.78
All	6,270	13.72

SOURCE: Bureau of Statistics, Economic Planning Board. Annual Report on the Family Income and Expenditure Survey, 1972. Table 5, pp. 80-81.

percentage spent on housing rent by actual renters and owner-renters is remarkably constant, at roughly 13 percent of total income for all except the highest-income groups who spend 17 percent. This relatively low percentage may reflect the absence of long-term financing to acquire a house as well as the need to save, rather than spend on housing, during the time a household is renting. 2/

An end-user survey of occupants of the AID-financed 12- and 15-pyong apartments built in 1974 showed that the range of expenditures out of income for housing was roughly 20 to 40 percent. Assuming similar finance terms and a range of 20 to 35 percent to account for possible underreporting of income, the figures shown in Table 4 can be derived.

Another approach to the question of affordability is to compare existing housing floor space with incomes and population. It has been possible to do this with two sets of data: data from the national housing statistics for the big cities; and data for the Oksoo upgrading project in Seoul. These show average sizes of 1.74 and 1.51 pyongs per person, respectively. It is not uncommon to find an entire family of five to six people living in a single room and sharing a kitchen with several other families. Thus, both sources of data lead to the conclusion that, in order to provide housing for lower-income groups directly, housing sizes must be contemplated which are of the order of 6.0 and 9.0 pyongs, substantially smaller than the 13-pyong units that had been the minimum size set by the Korean Government.

2/ There are several ways to rent, the most common of which is the *chonse* system. The renter pays the landlord a large sum (often of the order of W 1 million or more) in key money but must return it without interest at termination of the tenancy agreement. The income from key money investments serves in lieu of rent. The contracts are normally negotiated biannually or annually. When the renter cannot pay such a large sum, an agreement can be reached whereby he pays some key money and a low monthly rental or, in an extreme case, pays no key money with the entire payment in a monthly rental charge. The average Korean family, unless its income is very high or unless it possesses inherited savings, will typically save for 10 years or more before buying a house.

TABLE 4
Value and Size of Affordable
Housing by Income Group

Category	Income Level	Value with Interest Rate of: 1/		Size with Interest Rate of: 2/	
		10 Percent	15 Percent	10 Percent	15 Percent
Lowest	0 - 42,100	1,167,000	831,000	5.8	4.2
Lower	42,101 - 70,200	2,184,300	1,555,500	10.9	7.8
Lower Middle	70,201 - 98,300	3,277,600	2,334,000	16.4	11.7
Upper Middle	98,301 - 154,500	4,917,200	3,501,500	24.6	17.5
High	154,501 or over	7,780,440	5,540,400	38.9	27.7

NOTES: 1/ In won. Based upon mortgage equal to 70 percent of total house cost. 2/ In pyongs. At Construction Cost of W 200,000 per pyong.

SOURCE: PADCO, Inc.

AID was successful in convincing the Korean Government of the validity of attempting the 7.5-pyong apartments constructed in the 1976 loan program. Perhaps more importantly, AID has been a positive influence in bringing down the overall national average size of dwelling unit built with public funds, even though progress has not been as rapid in this area as AID would have liked. It is an example of how negotiation, technical assistance and capital assistance have been combined to revise policy decisions.

C. CHARACTERISTICS OF THE HOUSING STOCK

A few dominant themes stand out in Korean housing. First, because of the severe winter climate, most Koreans seek relatively high-quality housing with reliable, adequate heating and insulation. There seems to be a conscious trade-off between space and quality in which Koreans weight quality more than people in most countries. Second, social and cultural patterns, as well as scarcity of urban land, facilitate households living in close proximity to each other. Renting a room or part of a house is a very common practice in Korea. Third, there is little, if any, long-term housing finance available. Thus, most households save a substantial part of their lives in order to purchase a house. Fourth, the overall level of income and the extent of building skills are such that self-help building may be a solution for a very small percent of new urban housing construction. Finally, present levels and the relatively rapid growth rate of income are sufficiently high that careful consideration must be given to a housing stock that meets current needs and which will be considered desirable after 10 to 20 years.

As shown in Table 5, the housing situation in the urban area of Korea worsened over the period 1960 to 1970. This situation is now beginning to stabilize as public programs are increased and as the population growth rate slows. The key figure used in Korea to evaluate housing is the housing ratio (the total number of houses divided by the number of households). In 1960, the national urban housing ratio was 66.6 percent, a shortage of 33.4 percent. By 1970, as a result of continued urban population growth and a shortage of housing production, the urban housing supply ratio had decreased to 55 percent. (See Table 6) Thus, 45 percent of all urban households were living in housing with kitchen and bath facilities designed for one household. The median size of all urban housing was, in 1970, 13.2 pyongs and the average floor area per occupant was 1.74 pyongs. Approximately 31 percent of all existing urban housing is under 10 pyongs. This suggests that

TABLE 5
Korea Housing Conditions
1960 - 1970

	1960	1970
Population (000)	24,989	30,882
Household Size	5.95	5.65
Total Households (000)	4,198	5,576
Urban Households (000)	1,231	2,531
Total Houses (000)	3,464	4,360
Urban Houses (000)	820	1,397
Housing Supply Ratio	82.5	78.2
Urban Housing Ratio	66.6	55.2

SOURCE: Government of Korea, Economic Planning Board Population and Housing Census Reports 1960 and 1970.

TABLE 6
Size of Urban Housing 1970
(in pyongs)

Area	Total Housing		Urban Housing	
	Number	Area	Number	Area
0 - 7 (5.0)	769,744	3,848.7	260,490	1,302.40
8 - 9 (9.0)	654,736	5,892.6	167,057	1,503.50
10 - 14 (12.5)	1,405,673	17,570.9	427,140	5,339.25
15 - 24 (20.0)	1,195,578	23,911.6	408,255	8,165.10
25 - 39 (37.5)	269,088	10,090.8	96,192	3,682.20
40 - 59 (50.0)	47,704	2,385.2	25,140	1,257.00
60 or more (75.0)	17,288	1,296.6	11,440	858.00
All	4,369,811	64,996.4	1,397,714	22,107.40

NOTES: Mean area of urban houses = 15.8 pyong.
Median area of urban houses = 13.2 pyong.
Mean area of all houses = 14.9 pyong.
Median area of all houses = 12.7 pyong.

SOURCE: Government of Korea, Economic Planning Board.
Population and Housing Census Reports 1970.

a sizeable proportion of the population is able to live in houses smaller than the current minimum size of public housing.

The single detached house is by far the dominant mode of housing in the cities at present. It accounts for 89 percent of the urban housing stock. Increasing numbers of apartments are being built in the larger cities, in response to increases in land value. There has been, in the big cities, a tradition of 2-, 3- or 4-story walkup flats, but these have been a relatively small proportion of the national urban total. Approximately 92 percent of the total national housing stock is owned by the primary occupant. Rental housing accounts for 5.5 percent of housing. Many owner-occupied houses are partially rented. It was estimated in 1972 that 51 percent of all households rent or lease their housing.

In response to these characteristics, AID and the Koreans agreed that the appropriate housing response required relatively high standards of construction and that some project types used by AID in other countries, such as basic sites and services (without a core house) and reliance on self-help construction methods, would not be appropriate for Korea. However, although AID agreed with the assumption that new construction should reflect the unique Korean situation, AID was concerned about preservation of the existing housing stock, particularly those called "illegal" by Koreans because they do not comply to local codes and regulations of lot size.

Illegality of house tenure is a major problem in Korea, particularly in the larger cities. (See Table 7) An illegal house is defined as one that is located on land without the permission of the owner, or as a house that violates the building codes. The popular belief is that most illegal settlement occurred immediately after the Korean War, when housing was on short supply and there were large inflows of refugees. To some extent, this is true; but it is also true that much squatting occurred subsequently. Also, squatting may occur on a small scale even at present, as a result of rapid low-income urban population growth and shortages of suitable, affordable land and housing.

The total number of illegal houses in Korea was estimated in 1974 at 201,300, roughly 12 percent of the total urban housing stock. In addition, there are many housing areas with legal housing that could be improved. Thus, the total housing needs -- for new housing and for upgrading -- are very large.

AID, working through technical assistance provided to the Ministry of Construction on the formulation of a National Housing Policy in 1974 and 1975, was successful in convincing Korean housing officials of the importance of preserving the

TABLE 7
Status of Illegal Houses

Region	Number of Illegal Houses
Seoul	149,502
Busan	29,056
Kyongki-do	6,194
Kangwon-do	-
Chungchongbuk-do	-
Chungchongnam-do	3,242
Chullabuk-do	1,981
Chullanam-do	347
Kyongsangbuk-do	4,734
Kyongsangnam-do	4,642
Cheju-do	1,631
Total	201,329

NOTE: As of December 31, 1974.

SOURCE: Government of Korea.

existing housing stock. The Korean Government included this concept as one of the basic provisions of the May 1975 National Housing Policy. This in turn provided the basis for introducing (through the HIG Program) the first Home Improvement Program in Seoul in 1976. This is to be followed with similar programs, also financed through HIG loans, in provincial cities in 1977.

On the other hand, while the idea of upgrading projects has been accepted (at least to the extent of allowing significant demonstration projects), the Korean Government has not abandoned its demolition program. It is reported that in Seoul some 20,000 illegal housing units were demolished during 1976. This is an obvious contradiction to the objective of preserving the existing housing stock. It also undermines the concept of upgrading, because the areas selected for upgrading are not inherently different from the areas in which demolition is occurring. This illustrates the basic problem of implementing a National Housing Policy when multiple government agencies are involved.

The need to sharply curtail demolition is of obvious concern to AID. It is the focus of negotiations for the future of the HIG Program in Korea.

PART ONE

THE AID-KOREAN DIALOGUE ON HOUSING POLICY

Chapter II

THE EARLY YEARS: 1971 TO 1972

From the beginning, AID was concerned about the impact of its proposed HIG Program on overall Korean National Housing Policy. This chapter attempts to trace the main streams of this dialogue, as it effected the emerging program objectives of the specific loan agreements.

It is fair to say that there was little emphasis on the housing sector in Korea prior to 1971. Only 875,000 housing units had been built or financed by the public sector (some 16 percent). This was, in fact, a reflection of a deliberate strategy on the part of the Korean Government to channel investment into what was felt to be more productive sectors. Other than this overall policy of deemphasizing, there was no specific articulated housing policy at that time. Therefore, the AID-sponsored Pre-Investment Survey of 1971 can be considered the start of the housing policy dialogue and the start of the HIG Program in Korea.

A. THE AID 1971 PRE-INVESTMENT SURVEY

The 1971 AID Pre-Investment Survey ^{3/} was intended, primarily, as a guide to AID action in Korea. It was prepared by three experts in a few months time. Its basic purpose was to identify the structure of the Korean housing sector, key programs, overall housing needs, and the methods of financing and administering the housing program.

The report included recommendations for action within three time perspectives: immediate-action, intermediate-steps, and long-term goals and objectives, as described below.

^{3/} U.S. Agency for International Development. Pre-Investment Survey Report: Housing Guaranty Program, Republic of Korea, 1971. USAID, October 1971.

1. The Pre-Investment Survey report recommended immediate action on a public sector negotiated housing program followed, as soon as possible, by a private sector competitive program. Both were targeted at middle-income families and were to operate within the existing institutional framework. They were to incorporate several demonstration features including a mortgage adjustment clause, a maintenance-of-value mechanism, and pre-payment and early sales penalties. Possible sites were identified for the public program as were sites and developers for the competitive program.

2. The intermediate changes called for more systematic organization of the Korean Housing Bank (KHB) and development of a maintenance-of-value instrument for use with the Bank's existing program. It was recommended that participation of employers in projects be supported to generate savings and housing for workers. Formation was recommended under regulations of privately-financed savings and home owners banks exclusively devoted to housing. It was suggested that KNHC divest itself of rental apartments for foreigners and that it abandon the condominium apartment development planned for the upper-income market. In addition, it was noted that KNHC could make available land and technical assistance for private-sector sponsors of middle-income housing developments.

3. Long-range goals stressed a need for a new system for housing finance designed for the specific purpose of encouraging savings, on the one hand, and providing for construction and long-term financing of housing, on the other. The new system was to have been composed of privately-financed stock corporations under government supervision, with a government agency acting as a banker's bank and regulatory agency. It was noted that the existing KHB could either be transformed into the supervisory and secondary market agency or dissolved, with its branches and main banking operations offered for sale to the private sector. It was recommended that KHC and the various local governments reclaim and acquire vacant land for future developments.

Considerable emphasis was put on lower-cost housing for the very low-income and irregularly-employed population who "cannot afford decent, safe and sanitary housing on an unsubsidized basis." This was to have been achieved by development of "experimental and innovative programs," although the content of these was not described. It was emphasized that a sustained program for low-income groups needed to be developed, as opposed to the sporadic efforts undertaken previously.

The 1971 Pre-Investment Survey was undertaken within the overall housing policy of AID at that time, which was much more concerned with increasing housing production than with



Figure 9. Sung Nam, near Seoul. Water supplied at community taps.



Figure 10. Apartments built by municipality: Cheonju.



Figure 11. Small houses built by municipality: Cheonju.

specifying the beneficiary target groups to receive the housing. It, also, should be remembered that in 1971 the failure of heavily-subsidized public housing for low-income groups as a national solution was well recognized by most international experts but that the new approaches of sites and services housing and settlement upgrading were not yet well understood or practiced. Therefore, the recommendations of the report were consistent with the "state of the art" at that time.

It is interesting to note, as mentioned in the Introduction, that in the beginning AID and Korean objectives were not very wide apart. Therefore, overall housing policy was not initially a major part of the dialogue.

The Pre-Investment Survey report did identify the basic problems of the Korean housing finance system and, particularly, the policies of the Korean Housing Bank. This major area has been brought up continually by AID's technical assistance missions to Korea, up to and including the Pratt Report of 1977, but no positive response has ever been obtained from the KHB or the Korean Government that address the problems identified.

There was no involvement of Korean housing professionals in preparation of the 1971 Pre-Investment Survey, as was to occur later when the National Housing Policy was prepared in 1975. In fact, the Korean Government was independently preparing a number of significant actions affecting housing policy which were adopted in 1972. Few, if any, of AID's 1971 recommendations were included in Korea's 1972 policy and program package, other than the commitment to the first HIG loan which resulted in the Banpo Apartments for upper-middle-income people. Nonetheless, the Korean 1972 housing proposals represent a major milestone in the Korean housing sector.

In 1972 the Koreans produced a much-improved legal structure for housing, based upon their own perceptions and analyses. These were reflected in the 1972 Housing Construction Promotion Law and in the 1972-1981 Plan for the Construction of 2,500,000 Houses. These actions by the Koreans were understandably followed by a period in which it was their desire to begin to implement the system which had been developed on paper rather than to consider further institutional changes of the kind supported by AID. Thus, even though there were substantial areas in which change was still necessary, AID adopted the position of continuing to finance projects, while at the same time entering into a sustained policy dialogue with the Koreans, rather than attempting to influence policy directly as a condition of making loans.

B. THE 1972 NATIONAL
HOUSING CONSTRUCTION PROMOTION LAW 4/

The 1972 National Housing Construction Promotion Law established a National Housing Policy Council of key housing agencies and a National Housing Fund to be administered by KHB. Other important legislation affecting housing included the 1941 Land Readjustment Law, the 1962 City Planning Law and the 1963 Development of Natural Territory Act -- the basis for the current national land use policy. The funds were to come from compulsory purchase of national housing bonds related to the purchase of business licenses and building permits for upper-income housing, loans from the Government or international sources, funds from a housing lottery, and other methods as prescribed by Presidential decree.

The funds were to be used for construction of national housing, purchase and development of land for national housing, repayment of loans and national housing bonds and such other projects as deemed necessary for promotion of national housing construction.

In addition, the law provided for the Minister of Construction to draw up a National Housing Construction Plan and implementation guidelines each year (in agreement with the Ministers of Economic Planning and Finance) and to direct the local self-governing bodies of KHC and KHB to execute the plans and guidelines.

The 1973 Enforcement Decree set conditions for the purchase of national housing bonds and limits for the types of housing to be financed by the National Housing Fund. Among the most important of these, for purposes of housing policy, are requirements that national housing be not less than 13 pyongs or more than 25 pyongs and that the minimum lot size be 27 pyongs. Furthermore, national housing is to be constructed in lots of not less than 100 units each, whether by private or public builders.

AID, beginning in 1974, utilized this Korean structure as the underpinning for its emphasis on the development of a comprehensive National Housing Policy.

4/ For a more detailed description of the 1972 Housing Construction Promotion Law and Plan for the Construction of 2,500,000 Houses, see Ministry of Construction, Government of Korea. Status of Housing, updated. Available from the Ministry of Construction.

C. THE 1972 PLAN FOR THE CONSTRUCTION OF 2,500,000 HOUSES

More or less simultaneously with the 1972 Housing Construction Promotion Law, the Ministry of Construction prepared for the Third and Fourth Five-Year Plans a "Plan for Construction of 2,500,000 Houses." This was, basically, the first systematic attempt to translate the housing policy as it existed in legislation at that time into a plan of action. It included performance targets against which progress could be measured consistent with the resources expected to be available, with roles assigned for each major group of public agencies and the private sector. Under this plan, a total of 2,500,000 houses were to be constructed, 1,000,000 during the Third Five-Year Plan and 1,500,000 during the Fourth Five-Year Plan. (See Table 8) The government was to be responsible for 1,109,000 units, with 860,000 to be constructed by the Central Government (including KNHC) and an additional 173,000 by KHB. The target was to reduce the national housing shortage ratio by 10.4 percent, from 77.8 in 1970 to 88.2 percent in 1981. (See Tables 10 and 11 on pages 42 and 43)

The 1972 Plan, had it been fully implemented, would have represented a threefold increase in housing construction and an eightfold increase in public housing construction.

The method of financing the Plan for Construction of 2,500,000 Houses was to have been the National Housing Fund which was, in turn, financed by the sale of compulsory bonds, a housing lottery and contributions out of the national budget. No financial forecasts were made of actual resources available. The Plan, therefore, was largely a statement of objectives which were to be revised in the light of actual experience.

TABLE 8

1972 Housing Construction Plan

	1972- 1981	1972- 1976	1972 ¹	1973	1974	1975	1976	1977- 1981	1977	1978	1979	1980	1981 ¹	1975- 1981	Remarks (B/A)
Number of Households 1/ Urban Areas	(1,498)	(722)	5,774	5,934	6,071	6,220	6,372	(776)	6,528	6,682	6,833	6,986	7,148	(1,077)	123.8
Rural Areas	(1,910)	(910)	2,705	2,958	3,134	3,318	3,505	(1,000)	3,694	3,889	4,085	4,303	4,505	(1,371)	166.5
	(-412)	(-188)	3,069	2,976	2,937	2,903	2,867	(-224)	2,834	2,793	2,748	2,677	2,645	(-294)	86.1
Number of Houses Urban Areas	(1,860)	(525)	4,516	4,592	4,692	4,831	4,989	(1,328)	5,178	5,402	5,670	5,975	6,317	(1,625)	139.9
Rural Areas	(2,139)	(647)	1,677	1,782	1,904	2,065	2,244	(1,485)	2,464	2,719	3,017	3,355	3,729	(1,825)	222.4
	(-279)	(-122)	2,839	2,810	2,788	2,766	2,745	(-157)	2,714	2,683	2,653	2,620	2,588	(-200)	91.2
Number of Houses Constructed 2/ Urban Areas	2,500	833	110	143	160	200	220	1,667	252	290	335	375	415	2,087	377.3
Rural Areas	2,366	743	95	128	140	180	200	1,623	242	280	325	368	408	2,003	429.5
	134	90	15	15	20	20	20	44	10	10	10	7	7	84	46.7
Public Sector	700	250	17.5	43.4	45.5	70.0	74.0	450	80	85	90	95	100	594	571.4
Private Sector	1,800	583	92.5	99.6	144.5	130.0	146.0	1,217	172	205	245	280	315	1,493	340.5
Number of Housing Decrease 2/ Urban Areas	640	301	58	60	60	61	62	339	63	66	67	70	73	462	-
Rural Areas	227	89	15	16	18	19	21	138	22	25	27	30	34	178	-
	413	212	43	44	42	42	41	201	41	41	40	40	39	284	-
House/Household Ratio 3/ Urban Areas	-	-	78.2	77.4	77.3	77.7	78.3	-	79.3	80.8	83.0	85.5	88.4	-	-
Rural Areas	-	-	62.0	60.2	60.8	62.2	64.0	-	66.7	69.9	73.9	77.9	82.8	-	-
	-	-	92.5	94.4	94.9	95.1	95.7	-	95.8	96.1	96.5	97.9	97.9	-	-

NOTES: 1/ In thousands. 2/ In thousand units. 3/ Percent

SOURCE: Ministry of Construction, 1972 Housing Plan.

Chapter III

PREPARATION OF A NATIONAL HOUSING POLICY AND CONSTRUCTION PLAN (1973-1976)

At the end of 1974, it was apparent that the overall level of housing construction was increasing annually while actual construction was falling behind the 1972 Construction Plan. During the three-year period 1972 to 1974, 592,000 units were built (83 percent of the Plan target). However, the public sector built or financed only 106,000 units (60 percent of the public sector target). Even with this shortfall, the public sector had approximately doubled its rate of construction over the 1960 period. 5/

In 1973, as the first HIG loan was in execution with a second loan soon to be requested by KNHC and the Korean Government, AID moved to encourage further development of a comprehensive National Housing Policy, by making a commitment to prepare a policy during 1974 a condition of the second loan. This document eventually was completed in May 1975. 6/

A. THE MAY 1975 HOUSING POLICY

The Ministry of Construction was given responsibility for preparing the technical basis for the National Housing Policy. The Housing Bureau of MOC took the lead and additional support was provided by staff seconded from other Ministries,

5/ See Chapter VI: The Korean Public Housing Program Context and Table 14, Korean Public Housing Achievements.

6/ For a more detailed description, see Government of Korea, Ministry of Construction. Korean Housing Policy and Long-Term Housing Construction Plan. Ministry of Construction, May 1975.

KHB and KHC. The technical group reported to a senior-level, inter-ministerial housing policy committee which was chaired by the Vice Minister for Construction. Additional support was to be provided by outside Korean consulting firms. AID was to provide short-term, international technical assistance. 7/

Work on preparing the National Housing Policy proceeded throughout 1974. A first draft was reviewed in January 1975 which was followed by a final draft in May 1975. This draft was officially signed by the Minister of Construction as approved. However, AID and the Korean staff who had worked on the policy document had hoped that it would have been formally approved by the President of Korea or by the Council of Ministers. The fact this did not happen has undermined, to some extent, the usefulness of the results. 8/

The housing policy was essentially a two-pronged approach directed at maximizing the net addition to the national housing stock, on the one hand, and at improving the quality of that housing stock, on the other. The simultaneous pursuit of these two fundamental objectives was, however, somewhat contradictory, as the process of upgrading the standards of housing must necessarily limit the maximization of net additions to the housing stock given the limited resources available. This conflict, which has been a constant in the housing policy dialogue, has never been resolved in operational terms. Nonetheless, even though the Korean National Housing Policy was

7/ AID took the position that only if the Koreans themselves were clearly responsible for technical work on the Housing Policy could the result be meaningful. It was felt that a foreign team could not prepare a National Housing Policy which would result in other than a paper document. Therefore, AID's assistance was limited to help in designing the work program for the Korean technical staff, to reviewing draft reports and to informal suggestions and general dialogue. Assistance was accomplished by several short-term missions of two to three weeks each, during the course of Housing Policy preparation, by PADCO, Inc. personnel retained by the Office of Housing, AID.

8/ For a more detailed discussion, see "The Experience of the Korean Government in Housing Policy Formulation," PADCO Inc., January 1976. This work was financed by the Office of Housing, AID.

uneven in its presentation and technical underpinning, its preparation broke substantial new ground in Korea.

The main objectives of the National Housing Policy are as follows:

1. To reduce the overall national housing shortage ratio from an estimated 77.8 percent in 1970 to 88.4 percent by 1981.
2. To raise the average dwelling space to 5.0 pyongs per capita in a 3-room housing unit in the 1980s.
3. To improve environmental conditions and services, including roads, water, sewerage, electricity and street lights.
4. To give priority to urban housing construction, since the housing supply rate is lowest in the urban areas.
5. To maintain the existing housing stock to the greatest extent possible and to impose restrictions on the spontaneous removal of existing houses built to certain standards.

The housing delivery system was contemplated as follows:

1. Target groups were identified on the basis of income and agencies of government were given responsibility for supplying housing to them. Local authorities were given responsibility for housing improvement and rental housing construction for lowest-income groups and sales housing for low-income groups. The KNHC was given responsibility for rental housing for lowest-income groups and housing construction for sale for the low- and lower-middle-income groups. Most middle-income housing, and all high-income housing, was to be supplied by the private sector with some financial support for middle-income groups. Financial support was also to be provided to commercial builders.
2. Land development was to be the responsibility of the local authorities, using existing legal mechanisms such as the land readjustment process.

3. Measures were to be undertaken for development of low-priced house-building techniques and materials.
4. Home improvement programs were to be undertaken by local authorities, to legalize unlicensed housing and upgrade neighborhoods and housing stock.
5. A program was to be established to register building materials enterprises and control the quality of materials.
6. Standard designs were to be produced and distributed, to facilitate better construction and performance in situations where an architect was unavailable.
7. Administrative functions were to be rationalized and strengthened, principally by creating a housing bureau in MOC (which has been achieved) and by strengthening housing sections, bureaus and subsections in the local governments. 9/
8. A recognition of the limitations of the housing finance system, and proposals to increase housing finance were included in the system. However, the proposals primarily involved increases in funding from budget and foreign sources and did not fundamentally affect the basic Korean housing finance system.

By far the most significant objective included in the Housing Policy was the commitment to "preserve the existing housing stock." This represented a complete reversal of previous Korean Government policy. It gave official sanction to AID's vigorous efforts to introduce upgrading in Seoul's

9/ AID involvement in Korean Housing Policy stressed the need to create a Housing Bureau with housing policy responsibility in the Ministry of Construction from the previous small Housing and City Planning Bureau, with a strengthening of the staff. The objective has been to achieve a staff unit that could interact with the Housing Policy Committee, preparing information for them on key policy and administrative issues. It appears that objective is now close to fruition in 1977, some two years later.

illegal settlement areas (this effort eventually materialized in the 1976 HIG loan).

As will be discussed later, this policy commitment cannot yet be considered operational, but its overall impact on future Korean housing programs is potentially enormous. In part, the failure to include a key word has led to difficulty with the City of Seoul in implementing the policy directive. The policy did not define the "housing stock" to be preserved. Whereas the drafters of the policy intended to include all housing stock (both illegal and legal), others in Korea interpreted this commitment initially to mean only to "preserve all legal housing stock." Their argument was that, by definition, it is against the law to preserve housing stock that is "illegal."

The second major accomplishment of the Housing Policy document was the introduction, for the first time, of target groups based on income categories as directly related to housing programs and policies. This use of precise definitions has allowed a much clearer discussion of the potential beneficiaries of housing programs. Unfortunately, the Fourth Five-Year Plan's section on housing failed to continue this use of target groups, as will be discussed later.

The greatest shortcoming of the Housing Policy, other than conflicts in basic objectives, was the omission of specific housing finance policy recommendations with regard to such questions as subsidies, interest rates and the role of KHB.

When pressed on these matters, Korean drafters of the Housing Policy responded that if they had attacked these issues directly in the policy document, there would have been a substantial risk that the policy would never have been adopted. These matters remained as unfinished business and AID has taken them up again through the 1977 Pratt Report (discussed later).

B. THE 1975 CONSTRUCTION PLAN

Accompanying the National Housing Policy was a revised construction plan through 1981. The revised plan set the same targets as the 1972 to 1981 Plan but reallocated the level of effort between the public and the private sectors. Public sector responsibility was reduced from the original 692,500 units to 450,000 units, a reduction of 35 percent. The private sector was to pick up the difference.

Since the original plan was already behind targets in both the public and private sectors by 1975, the revised plan showed actual construction for the years 1972 to 1974 and set more modest targets for 1975 and 1976 (some 80,000 units less than the original plan), but then accelerated the construction targets for the remainder of the period through 1981. (See Table 9) For example, the original target for 1981 was 338,000

TABLE 9

May 1975 Housing Construction Plan
(in thousand units and billions of won)

	1975	1976	1977	1978	1979	1980	1981	Total
Number of Houses to be Constructed	200	220	252	290	335	375	415	2,087
Public	70	74	80	85	90	95	100	597
Private	130	146	172	205	245	280	315	1,493
Amount of Investment	326	377	454	553	670	788	913	4,081
Public	74	80	95	110	130	155	185	829
Private	252	297	359	443	540	633	728	3,282
Cost per Unit								
Public								1,389
Private								2,198

SOURCE: Ministry of Construction, Korea National Housing Policy and Long-Term Construction Plan.

units while in the revised plan it was 415,000. (See Tables 10 and 11 on pages 42 and 43)

The 1975 Plan made one major new contribution to thinking about housing plan targets. It presented considerable analytical material on necessary inputs and resource mobilization to achieve the targets proposed. It recognized that it would be necessary to have an expansion of the national housing funds from 3.2 to 5.6 percent of GNP. This increase was to be achieved in part through the expansion of public housing funds. Included in the measures suggested were increased allocations from central and local government funds and increased private

contract savings programs. More foreign investment was also to be sought.

As important as this analytical work was in adding an important element to the methodology of housing professionals in Korea, it should have been interpreted as a clear signal that the 1975 Housing Construction Plan was as unrealistic as the original 1972 Plan. Since the Ministry of Economic Planning had limited the housing sector to 3.2 percent of GNP in the third plan period, a jump to 5.6 percent of GNP for the fourth plan should have been considered unrealistic at the outset. On the other hand, the MOC (the "advocates" of housing) contend that, by preparing their 1975 Plan, they were in a better position to "negotiate" a higher allocation of GNP for housing in the fourth plan with EPB. And, indeed, the allocation did go up to 3.8 percent (see discussion on the fourth plan which follows).

C. AID FOLLOW-UP ON THE HOUSING POLICY

AID accepted the May 1975 Housing Policy as full compliance with the commitment in the HIG loan of 1974, because it was a major step forward and included the policy objective in support of the Home Improvement Program which AID was eager to promote. Nonetheless, AID recognized the fact that the National Housing Policy fell substantially short on many issues which needed to be addressed. As a result, AID negotiated into the two HIG loans proposed for 1975 a series of follow-up studies on issues requiring further attention. The project paper included the following work areas for MOC to take up in the following year.

1. A survey of housing loan interest rates aimed at reducing subsidies or at reducing subsidies for all but the lowest-income groups.
2. An investigation of the use of key money by different income groups and into how lower-income groups could be assisted in the purchase or lease of housing.
3. A major study of housing administration and finance institutions.
4. Further consideration of the appropriate role of local governments in housing.
5. Further consideration of the role of the private sector.

6. Review of the various special-purpose government housing programs to ensure integration with the overall housing policy.
7. An early and thorough review of the 1976 Annual Plan, in order to ensure that the resources assumed are available, that the private sector has been considered and that the implementation plan is useful in administration of the program.

The KNHC prepared one study ^{10/} and MOC contracted, with the same Korean consulting firm that participated in the original housing policy work, to undertake the other required studies. ^{11/} The consultant produced several massive reports, containing much valuable data and descriptive material. Unfortunately, the main points of concern at the policy level were neglected, as only superficial or unworkable proposals were developed. AID did not provide any technical assistance during this stage of the work. Its involvement might have helped focus the Korean consulting firm and might have ensured a better coverage of the key issues. As a result, the fundamental issues of finance and administration still remained essentially untouched while another year passed. Meanwhile, the draft Fourth Five-Year Plan was prepared during 1976.

^{10/} Korea Housing Corporation. Study on Raising of Housing Funds and Housing Financing System. Korea Housing Corporation, 1976.

^{11/} Song, Byung-Nak and Struyk, Raymond J. Korean Housing: Economic Appraisal and Policy Alternatives. Korean Development Institute, May 1976.

Chapter IV

THE HOUSING SECTOR OF THE FOURTH FIVE-YEAR PLAN AND HOUSING FINANCE PROPOSALS

The Economic Planning Board was busy throughout 1976 preparing the Fourth Five-Year Plan (1977-1981). The MOC met with the EPB, from time to time, regarding content of the Plan's housing sector. MOC actively promoted the recommendations of the National Housing Policy and the 1975 Housing Construction Plan. The results of the Fourth Five-Year Plan's housing sector draft 12/ were something less than MOC desired but, in many ways, they supported the conclusions which AID had been promoting, at least in some areas. 13/

A. THE KEY COMPONENTS

The key components of the Fourth Five-Year Plan's housing sector were as follows:

1. The overall annual growth rate of GNP is forecast at 9.0 percent. The total level of resources is expected to be 3.8 percent of GNP, up from the 3.2 percent of the GNP during the Third Plan but substantially below the MOC proposal of 5.6 percent.

12/ See: Ministry of Construction, Housing Section. Fourth Housing Construction Plan. Final Draft. Ministry of Construction, October 22, 1976.

13/ During this time, the World Bank sponsored a housing finance expert to work with the Korean Development Institute directly for EPB. The report on this effort generally supports AID's view of the issues, but it seems to have had little overall impact on the housing sector of the Fourth Five-Year Plan.

2. The total number of houses to be constructed by the public sector is increased slightly relative to the May 1975 Plan, from 450,000 to 512,000. The total public and private program is reduced to 2,103,000 for the combined 1972 to 1981 period, a recognition that the private sector is unlikely to provide as much as originally contemplated. (See Tables 10 and 11).

TABLE 10

Fourth Plan Housing
Construction Program

(in billion won, 1975 prices)

	1975	1976	1977	1978	1979	1980	1981	1971- 1981
Investment								
Public		81	107	109	117	129	138	600
Private		<u>299</u>	<u>326</u>	<u>366</u>	<u>399</u>	<u>451</u>	<u>500</u>	<u>2,040</u>
Total Investment	394	380	433	475	516	580	637	2,641
Housing Units to be Constructed								
Public	63	68	95	94	100	108	115	512
Private	<u>117</u>	<u>122</u>	<u>125</u>	<u>146</u>	<u>160</u>	<u>182</u>	<u>205</u>	<u>818</u>
Total Units	180	180	220	240	260	290	320	1,330
Expenditure Per unit								
Public								1,172
Private								2,494

NOTE: Housing construction plan by supply agency and its investment program.

SOURCE: Ministry of Construction, Fourth Housing Plan.

TABLE 11
Comparison of Housing Construction Plans
(Number of Units x 000)

	<u>Ten-Year Housing Plan (1972)</u>		<u>Housing Policy And Construction Plan (1975)</u>		<u>Fourth Housing Construction Plan (1976)</u>	
	<u>Total</u>	<u>Public</u>	<u>Total</u>	<u>Public</u>	<u>Total</u>	<u>Public</u>
1972	110	16.8	110	17.5	110	17.5
1973	181	68.2	143	43.4	143	43.4
1974	208	91.7	160	45.5	160	45.5
1975	241	112.0	200	70.0	180	63
1976	260	127.3	220	74.0	180	58
1977	269	126.3	252	80.0	220	95
1978	279	131.1	290	85.0	240	94
1979	301	138.2	335	90.0	260	100
1980	313	144.0	375	95.0	290	108
1981	338	152.9	415	100.0	320	115
1977-1981	1,500	692.5	1,667	450.0	1,330	512.5
1972-1981	2,500	1,108.5	2,500	700.0	2,103	739.4

Source: Ministry of Construction.

3. In the Fourth Plan, the estimated current population is increased, as is the population forecast for 1981. Thus, the current housing supply ratio appears poorer on paper although, obviously, it is the same in reality -- 75.2 percent in 1977 as opposed to the MOC estimate of 79.3 percent. The 1981 objective of the housing supply ratio is set at 79.8 percent, down substantially from the 88.4 percent of the MOC May 1975 Plan. (See Table 12).

TABLE 12

House/Household Ratio

	Housing Policy and Construction Plan (1975)	Fourth Housing Construction Plan (1976)
1972	78.2	
1973	77.4	
1974	77.3	
1975	77.7	74.5
1976	78.3	74.6
1977	79.3	75.2
1978	80.8	76.1
1979	83.0	77.0
1980	85.5	78.3
1981	88.4	79.8

SOURCE: Ministry of Construction.

4. The emphasis in the public program is to be placed on the construction of small-scale housing (an average of 13 pyongs) in medium and small provincial cities.
5. The living space standard per person has been reduced downward to between 3.1 and 3.2 pyongs per person on the average. This appears to be much more realistic than the standard of 5.0 pyongs per person listed in the MOC 1975 Plan.
6. Continued emphasis is to be placed upon housing lot creation.

The Fourth Five-Year Plan reflects a more realistic assessment of possible accomplishments in the housing sector in the years ahead. The substantial reduction of objectives from those of the MOC 1975 Plan are in line with the general direction of AID's concerns and objectives. Nonetheless, the Fourth Five-Year Plan is, unfortunately, remiss in failing to pick up the most important points of the MOC Plan and the National Housing Policy. It is silent on the need to preserve the existing housing stock -- which should be of the highest priority and is certainly compatible with the remainder of the housing sector recommendations. It, also, fails to utilize the concept of the target groups introduced in the MOC Plan and Policy. This concept would have been extremely helpful to the housing agencies and MOC in disaggregating the targets of the Fourth Five-Year Plan into individual action programs.

Finally, the fundamental issues of housing finance and housing administration were once again bypassed with no progress being made on these key issues. These issues are of such a nature that, without some reforms, it is unlikely that even the more modest targets of the Fourth Five-Year Plan can be achieved. In reaction to this continuing problem, AID itself finally commissioned a study of housing finance in late 1976; the report was published in early 1977.

B. THE AID 1977 HOUSING FINANCE REPORT

The AID Housing Finance Report was undertaken by Richard T. Pratt and Associates. It was presented in draft form in Korea in February 1977.

The Pratt report focused on the KHB ^{14/} which, as previously mentioned, has been an institution with little or no

^{14/} Except for a few isolated and relatively insignificant instances, including life insurance companies, there is only one source of long-term mortgage finance for housing: the Korean Housing Bank. The KHB was established in 1967 to provide housing funds for low-income families. The total assets of the Bank as of October 19, 1976, were W 208 billion with the bulk (70.1 percent) committed in the housing area.

The KHB has five major sources of funds: deposits, housing debentures, compulsory national housing bonds, housing

interest in AID participation. The study was undertaken without a Korean counterpart team of the kind assembled for the Housing Policy. It therefore represents only the views of the foreign experts involved.

lottery funds and borrowings from the government. Approximately 55 percent of the Bank's present income derives from deposits and debentures, with the balance from the bonds, lottery and government. The funds mobilized are used for a number of purposes, primarily in the area of housing. Uses include loans to local governments for housing, loans to KNHC for housing and housing construction, loans to contractors for site development and building, loans to individuals for housing and private housing and short-term commercial loans and enterprise loans.

The interest rates charged and the terms of the loan vary with the purpose and the source of funds. Thus, loans for housing constructed by local governments are for 20 years at 4.0 percent interest, while those to KNHC are for 15 years at 8.0 percent interest. According to a senior staff member of KNHC, few, if any, loans are being made at present to contractors, as a result of a general shortage of funds. Loans for housing site development are for three years at 17 percent. In most cases, housing purchase loans are substantially below market rates. This gives the borrower an implicit subsidy amounting to between 40 and 50 percent of the loan amount. Thus, those persons fortunate enough to acquire public housing are substantially better off than those who do not. The subsidy in the finance program, in turn, limits the ability of the government to expand the program to the level required to reach a broader range of the population.

The prospects for the future level of funding of the KHB are only moderate under present policies. The bonds can be made to apply to more transactions and the rates can be increased. Clearly, the extent to which this can be done is limited. Furthermore, the proceeds must be used in part, beginning in 1978, to retire already outstanding bonds. Lottery funds are also likely to be relatively limited. The greatest opportunity appears to be to attract savings deposits, but participation is relatively low at present because of low interest rates offered on savings compared to the rates obtainable in the private "curb market."

The key recommendations of the Pratt report were as follows: 15/

1. To conduct a study to determine whether housing finance needs can be met within the given structure and, in particular, whether or not the existing KHB should remain as a retail lender or be upgraded to a wholesale lender or joint wholesale/retail lender. This is an idea which dates back to the original 1971 Pre-Investment Survey.
2. To simplify the KHB deposit structure into a few basic accounts.
3. To give KHB greater discretion in paying interest on deposits or restructuring all interest rates in all banks upward.
4. To discontinue the practice of tying specific sources of funds to specific loans in favor of restructuring interest rates and terms based on the nation's social objectives.
5. To consider means other than interest rates for providing housing subsidies.
6. To explore the feasibility of renegotiable mortgages or the possibility of formal indexation, in order to reflect the cost of money to the bank in its loan program.

The report and its recommendations are now being discussed in Government. Although it is too early to anticipate the final outcome, initial reaction appears to agree that there is a problem in housing finance. However, the willingness to address the major issues of sources of financing, interest rates and levels of subsidy is yet to be seen.

15/ Pratt, Richard T. and Associates. Housing Finance in the Korean Economy. Draft report prepared for USAID, January 14, 1977.

C. AID'S FUTURE WORK ON HOUSING
POLICY ISSUES

Several major studies are currently underway as a result of AID assistance, including the following:

1. A large-scale study of housing preference and demand, involving 10,000 interviews by KNHC. The study design is now under preparation.
2. A study of the housing construction industry.
3. Surveys of squatters in areas to be considered for upgrading. The study design is now being prepared.
4. A survey of the occupants of AID apartments is currently underway.

Also undertaken recently with AID's assistance was a report on KNHC operations. ^{16/} This has just been completed and has not yet been presented to Government.

^{16/} National Savings and Loan League. Korean National Housing Corporation 489-HG-001; 003 and 005 Fiscal and Management Review and Project 489-HG-004, Korea City of Seoul Fiscal and Management Review. Paper prepared for USAID, January 3, 1977.

Chapter V

REFLECTIONS ON THE HOUSING POLICY DIALOGUE

In the Introduction to this report, the basic theme of this case study was stated as a story of the interaction, over a prolonged period of time (1971 to 1977), between a sovereign government and a major international assistance agency. This interaction was focused on a single, but complicated, sector: housing. This chapter summarizes the activities by focusing on the major "events" in housing policy development during the seven-year period. Objectives of the parties changed during the period. They started out reasonably close together in their objectives and then experienced a widening gap as AID's objectives began to coalesce around specific programming for low-income groups. This was followed by a period of negotiation and adjustment by the Korean Government and AID during which there developed a set of mutually acceptable objectives. This process is continuing.

A. SOME OVERALL CONCLUSIONS

The facts on this dialogue have been stated and the successes and shortfalls noted in this chapter. There is no doubt that AID has played a major, though indirect, role in shaping Korean Housing Policy and in influencing housing programs during this period. In the process, AID has seen distinct movement toward its own objectives in many areas. There have been particular changes in obtaining for lower-income groups a larger proportion of the public sector investment as well as in adopting a more realistic set of policy decisions for their ultimate benefit. AID has been influential in building the institutional capacity of the KNHC as well as, to a lesser though not insignificant extent, the capacity of MOC's Housing Bureau. AID has assisted in institutionalizing the housing policy process in building an adequate data base for rational decision-making. The specific achievements with regard to capital loans is discussed in the next chapter.

There have also been substantial shortfalls in what AID had hoped to accomplish. By far, the largest has been the failure to effect the housing finance system in Korea to date, even though this issue is far from closed. The other concern is a matter of the degree of success achieved. Could progress have been faster in lowering the cost of housing for low-income groups? developing a working housing policy? initiating a large-scale Home Improvement Program? etc.? These questions can only be answered subjectively.

Their answers hinge on an individual's perception of the degree to which an international assistance agency should seek "leverage" through a possible denial of capital sought by a country. As stated in the Introduction, an underlying assumption of international cooperation is that the assistance-giving agency has the right to define its own objectives; conversely, the country has the obligation to determine its policies and plans. Hence, the need for negotiation and compromise arises.

In Korea, the circumstances of timing permitted AID to proceed in implementing its own objectives without threats of terminating future loan commitments to Government, because the initial loan was essentially for upper-middle-income apartments. Therefore, changes required by AID came after the program was underway and after rapport and confidence had built up on both sides. This sequence would not have been possible under the objectives and policy guidelines which influence the HIG Program today.

Thailand is a good example of the contrast. Thailand, in 1976/77, essentially holds the same policy positions as Korea in 1971/72. AID has spent considerable time and money in discussing a possible HIG Program with Thailand, but no substantial progress has been made toward a specific loan. The main reason for this standstill is that the kinds of housing projects which the Thais are eager to support do not fit AID's objectives and policies. It is too early to know the ultimate outcome, but the question must be raised that if AID could enter the country with an initial loan outside its guidelines, (as it did in the Banpo Apartment Project in Korea), would there be a greater chance of influencing housing objectives and programs of Thailand eventually. In other words, if the initial gap on objectives is too wide for immediate compromise on AID's terms, does the situation create the potential for totally losing an opportunity to ultimately benefit the lower-income groups of concern. The World Bank experience in Korea, discussed in Appendix I and the Introduction, raises the same issue.

There is little doubt that AID could have increased its influence in Korea, and probably accelerated the rate of housing policy change, had it prepared a more precise strategy of the changes it sought and had it formulated operational proposals for their implementation. This point is taken up more fully in Part Three, Lessons for the Future. The failure to do this was partly because the AID HIG Program itself underwent enormous policy changes during 1973 and 1974. It has only been under the present leadership of the Office of Housing that specific developmental objectives have been articulated which would permit preparation of a total country strategy for a HIG Program, instead of a mere series of "on-off" loan projects.

B. SOME THOUGHTS ON TECHNICAL ASSISTANCE

Another question to be considered is whether AID could have achieved an even more successful realization of its objectives by using more technical assistance.

AID has used technical assistance throughout the Korean program, primarily through a series of short missions of one week to a month's duration. AID did not open its regional office until mid-1975 and did not staff that office with a technical-assistance specialist (an architect/planner of excellent competence) until mid-1976. Since establishment of the permanent office in Korea (even though it has Asian-wide responsibilities), there has been a definite improvement in the rate of policy change and in specific project accomplishments, particularly in the Home Improvement Program.

Overall, AID's point of view on technical assistance has been to provide such assistance as has been requested and also to promote assistance on certain issues such as housing finance even when not requested. On the other hand, AID has always attempted to make sure that the basic responsibility for work on housing policy and related issues has rested with Korean professionals. This is the correct position because it has forced needed dialogue on the objectives to take place among Korean agencies and has avoided the kind of purely academic reports which frequently result when foreign experts are essentially responsible. Therefore, AID's short-term technical assistance strategy was probably essentially correct. Certainly, now that there is a permanent presence in Korea to anchor the short-term assistance and conduct essential follow-up, this should be a workable model.

It is, perhaps, presumptuous for PADCO to comment on the quality of technical assistance given in Korea, considering the fact that the firm was a significant part of that effort. Nonetheless, it seems fair to say that the technical quality of the PADCO's work and the work of several other groups and individuals involved over the years has been of acceptable standard. The question is how this technical assistance effort could have been more effective.

First, there have been numerous individual experts involved, many for only one or two visits. It probably would be better in principle to limit as far as possible the number of individuals, because to be relevant an individual needs to build rapport with the host country professionals and to gain an overall understanding of the housing situation in a particular country. This takes several visits to accomplish.

Second, the technical assistance effort should be more precisely planned in advance with host country agencies. The more precise the scope of work, and the more prepared the host country professionals are to work with the individual expert during his short mission, the more can be accomplished. Equally important is that the total schedule of technical assistance should be worked out, if several missions are involved, and agreed to with the host country. This has the advantage of forcing the Koreans, in this case, to develop their own precise work schedule to meet levels of accomplishment prior to a visit from a foreign expert. It also allows the individual expert to plan his schedule in advance, so that he can be available at the time his input is required.

Third, AID should insist on "plugging in" the technical assistance input at the appropriate level of government. In Korea, as in most developing countries, policy decisions are only taken at the highest levels of government, even on relatively minor issues. The gap between the technical staff and policymaking officials is very wide and formally structured. The prudent use of a foreign expert can bridge this gap, if the assistance-giving agency works out appropriate arrangements in advance. Too much of the technical assistance provided in Korea was focused at lower levels of the bureaucracy, far below the real decision levels.

Fourth, whereas the basic strategy on the use of technical assistance as a catalyst was correct, particularly in that the Korean professionals are generally competent, there is a problem in insuring operational proposals. There is a subtle tradeoff between keeping the responsibility firmly placed with the host country and obtaining a high quality of operational, implementable recommendations. Many of the issues to be addressed require solutions which are new to Korea and clearly

beyond the experience of local professionals. A stronger component of technical assistance might be productively used to assist in developing the specifics for action after the Government has itself developed the policy position.

C. SOME THOUGHTS ON TRAINING

There was only one formal effort to support training throughout the Korean program. It consisted of providing 10 weeks of training in 1975 for four Koreans in the offices of PADCO, including selected visits to housing agencies in Philadelphia and Boston. The purpose of the session was to instruct personnel of the unit to be involved with ongoing development of the housing policy. In fact, the Koreans nominated by government did not eventually remain in the housing policy unit and, because of language problems and the newness of the activity to PADCO, the results can be considered only marginally successful.

Could training have played a more important role in the program? It is probable that a more extensive training program would not have significantly influenced any of the policy issues or the construction of the apartment component of HIG loans. It is likely that a specific training program or earlier placement of the long-term, technical-assistance expert for the Home Improvement Program would have resulted in a more rapid development of that particular component. Certainly, training was not necessary for personnel of the KNHC.

An argument could be made for training technical staff of Seoul City and MOC, on the basis that the analytical, policy and program issues with which they were dealing represented considerable departures from their previous experience. A well-developed training program might, therefore, have been useful in preparing staff in technical work upon which key decisions were to eventually be based. In addition, a training program (of the kind intended for the housing policy unit), would have been valuable to prepare staff for ongoing responsibilities under the emerging housing policy framework.

There are probably some useful opportunities for the HIG Program to develop a greater emphasis on training, by linking more closely to the regular training programs of AID. This is particularly important, given the decision of AID to rely mainly on short-term technical-assistance missions rather than on larger, long-term specialist assignments in developing the HIG Program and in influencing the related housing policy issues.

PART TWO
THE HIGH LOAN PROJECTS

Chapter VI

THE KOREAN PUBLIC HOUSING PROGRAM CONTEXT

During the period of AID's involvement in Korean housing (since 1971), there have been five HIG loans. Four loans were for apartments sponsored by KNHC and one loan was to Seoul City for upgrading. Table 13 summarizes the salient points for each loan.

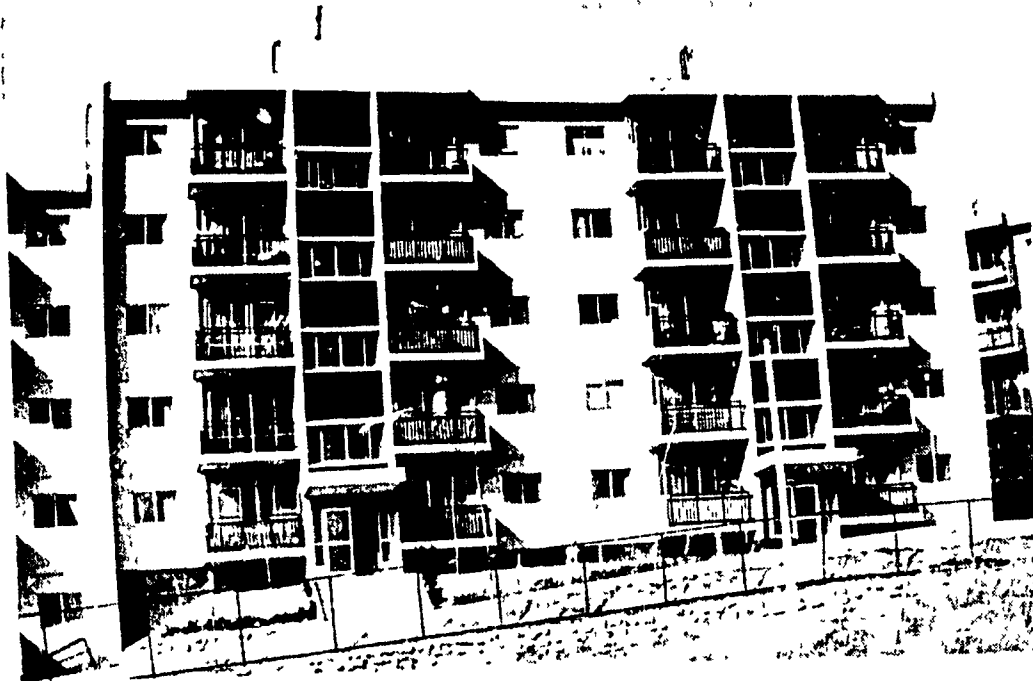
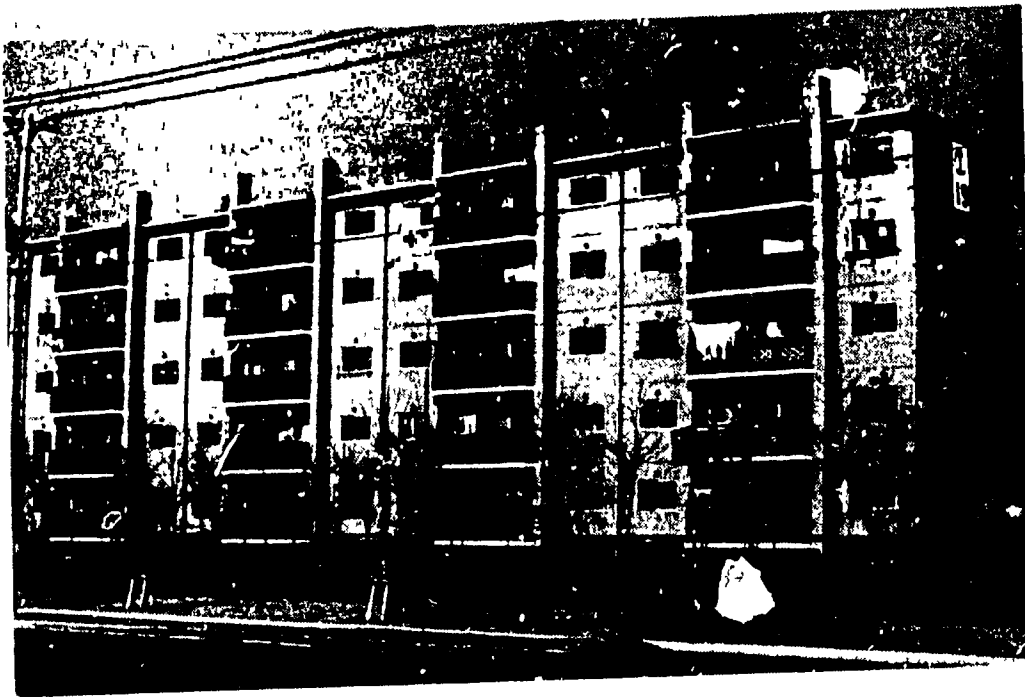
TABLE 13

AID Housing Achievements in Korea

Year	Number	Percent KNHC	Percent Public	Percent Total
1973	1,490	28.7	8.5	1.0
1974	3,700	36.5	12.3	2.3
1975	9,200	49.7	14.6	5.1
1976	<u>4,710</u>	<u>18.1</u>	<u>8.1</u>	<u>2.6</u>
Total	19,100	30.7	11.2	2.5

SOURCE: PADCO estimates.

The previous chapter summarized the interaction between AID and the Korean Government on housing policy issues. In a sense, it was the individual HIG loans which provided leverage and stimulated dialogue on the housing policy issues. That discussion forms the background to the specific projects undertaken with HIG loans which, in turn, had their own set of specific operational objectives to be achieved.



Figures 12 and 13. AID-financed apartments: 13- and 15-pyong units.



Figure 14. AID-financed apartments
in Seoul: 10-pyong unit.

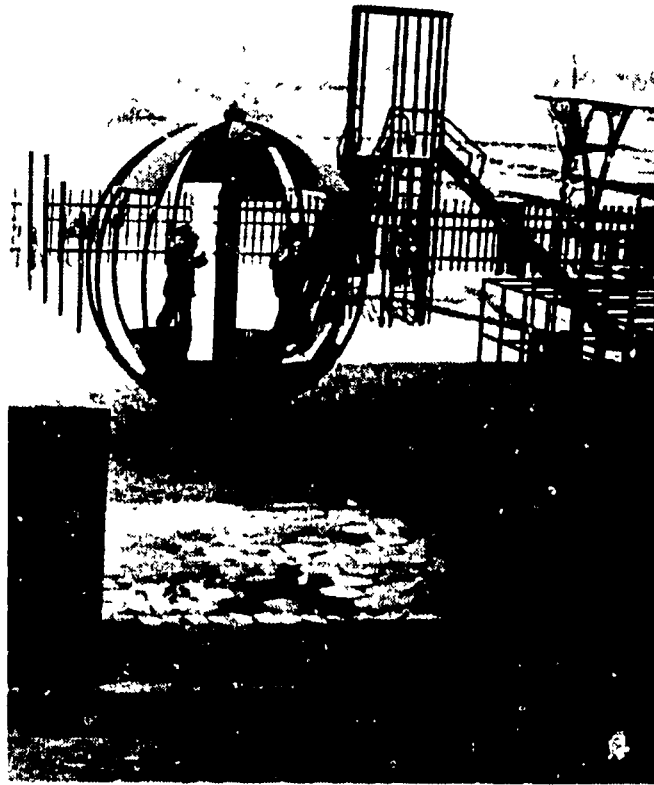


Figure 15. AID-financed apartments:
Improved design and public facilities.

A. KNHC AND PUBLIC SECTOR HOUSING PROGRAMS

The role of the public sector in Korean housing is considerable. It involves programs for land development, ^{17/} public housing construction and public finance. The total number of units, either constructed directly in or financed by the public sector, in 1974 was 45,500 (about 28 percent of all housing construction). (See Table 14)

Public housing construction is jointly the responsibility of the cities, KNHC and other agencies of the Government. The types of units include rural duplex units, independent houses and apartments for either sale or lease. The most visible component has been five-story walkup apartments which have been constructed in Seoul, Pusan and the major provincial cities. Experimental rowhouse units have been constructed and are expected to be included in the 1977 program.

During the First Plan Period (1962-1966), the public housing program was limited to about 10 percent of the total housing units constructed, primarily because of a lack of

^{17/} Large-scale land development at present is largely the responsibility of the cities. They either develop land directly or, particularly in the smaller cities, facilitate land development by the private sector. In either case, a process called land readjustment is the most common mechanism. In this process, the developer notifies private landowners of its intent to develop an area. A readjustment plan is then prepared, in which the developer identifies parcels needed for public purposes and for sale, in order to recoup development costs. The remainder is then returned to the original landowners, in proportion to their original ownership. If properly planned and carried out, the increase in land values is sufficient to recover construction costs and to return land to the original owner with a value in excess of that of his original land.

Land readjustment has been practiced in Korea since 1937, with most of the activity in the late 1950s and 1960s. Through 1974, a total of 67,410,000 pyongs had been developed for housing sites sufficient to house as many as 10 to 15 million persons if used efficiently. Thus, the mechanism appears to work well. It could be administered in such a way as to provide an increased supply of lots for the low-income groups.

TABLE 14
Korean Public Housing
Achievements 1/

Year	Total	Public		KNHC		
		Number	Percent	Number	Percent	of Public
1962	49,492	8,776		1,558		
1963	58,507	6,232		907		
1964	54,150	4,820		1,026		
1965	70,465	7,953		580		
1966	93,321	12,134		1,062		
1962-66	325,935	33,915	10.41	5,133	1.57	15.13
1967	94,568	5,727		1,407		
1968	96,225	20,094		811		
1969	104,545	37,812		1,239		
1970	115,000	15,579		2,423		
1971	130,000	23,808		1,845		
1967-71	540,338	103,026	19.07	7,725	1.43	7.50
1972	110,000 2/	17,500 2/		2,290		
1973	142,660 2/	43,400 2/		5,190		
1974	160,000 2/	45,500 2/		10,152		
1975	180,000 3/	63,000 3/		18,498		
1976	180,000	58,000		26,076		
1972-76	772,660	170,400	22.05	62,206	8.05	36.51
1977	220,000	95,000				
1978	240,000	94,000				
1979	260,000	100,000				
1980	290,000	108,000				
1981	320,000 4/	115,000 4/				
1977-81	1,330,000	512,000	38.50			

SOURCES: 1/ Includes housing constructed by the Government and public agencies plus housing financed by the Korean Housing Bank. Republic of Korea, Ministry of Construction. Status of Housing (bound but undated report).
2/ Estimates from Republic of Korea, Ministry of Construction. Korea Housing Policy and Long-Term Construction Plan, p. 53. MOC, May 1975.
3/ Current estimates from Republic of Korea, Ministry of Construction Fourth Housing Construction Plan, p. 13, MOC, October 1976.
4/ Source of 1976-1981 figures: Fourth Housing Construction Plan, p. 13.

financial resources. In 1968, the second year of the Second Plan, the Public Housing Program was greatly enlarged, by implementing a "citizens' apartments" program. This program was financed out of general funds and administered by the city governments under the Ministry of Home Affairs. During the entire period of the Second Plan, public housing construction amounted to 19 percent of all units built.

In 1972, following a collapse of one of the "citizens' apartment" units and evidence of structural faults in other units, the principal responsibility for public housing construction was transferred from KNHC to the Ministry of Construction. The total public sector program was expanded to 22 percent of the total units constructed. During this time, the sources of public housing finance also underwent transformation, with increasing reliance upon national housing bonds and a lottery administered by KHB as a source of funds and less reliance upon general revenues.

B. THE 1976 HOUSING PROGRAM

There are at present a number of housing programs directed at different situations and methods of implementation within Korea. The 1976 public housing program is presented in Table 15.

Thus, the total government program was planned for 74,500 units in 1976 with approximately 40 percent of the total expected to be built in that year. Within the public sector total, KNHC was expected to construct 26,000 units, primarily apartments, while a substantial number of apartments and other types of housing were assigned to the cities, local autonomous bodies and other agencies.

The costs of publicly-constructed housing range, in 1976 prices, from W 210,000 per pyong for 13-pyong lease apartments in urban areas to W 70,000 per pyong for 15-pyong units. Based on the income and affordability analysis presented earlier, it is apparent that the present program does reach all but the lowest income groups. But, it must be kept in mind that it is not implemented on a sufficient scale to reach even the majority of those needing and requiring housing.

Within the total Public Housing Program, the programs of KNHC are of particular interest, since most of AID's housing finance to date has been associated with KNHC projects. The programs of KNHC have developed in three distinct phases: 1) 1962 to 1967, during which time the activities of the corporation

TABLE 15
1976 Korean Public Housing Program

Number	Program
10,000	13-pyong apartments for lease administered by KNHC and the cities
26,000	12 to 25-pyong apartments for sale administered by KNHC
3,500	Other apartments administered by sponsoring government ministries.
3,200	12 to 25-pyong, single-story, duplex houses administered by local autonomous bodies and sponsoring government agencies.
19,100	18-pyong independent houses administered by KHB, Seoul City and local autonomous bodies.
8,200	15 to 18-pyong rural houses administered by the local autonomous bodies and other government ministries.
3,500	12 to 25-pyong houses for resettlement of former residents of industrial estates.
<u>1,000</u>	9-pyong apartments for resettlement of former residents of houses removed in the cities, administered by the cities and local autonomous bodies.
74,500	

SOURCE: Ministry of Construction. 1976 National Housing Construction Plan and Guiding Principles for Fund Management. (Typed English translation)

were approximately equally distributed between the construction of single and row houses, apartments, and site development; 2) from 1968 to 1971, during which time single and row house construction was curtailed while the land development programs were expanded greatly; and 3) from 1972 to present, when its activities have been restricted with few exceptions to apartment construction which has been expanded. It is expected that the KNHC will construct row houses in the secondary cities during the Fourth Plan period, in an effort to reduce costs. It will also serve as the agency responsible for the AID-financed Home Improvement Program in the secondary cities, although much of the actual implementation will be delegated to the cities wherever possible.

C. THE AID AND KNHC HOUSING PROGRAM

The overall KNHC program is described in Tables 16 and 17. The total number of units constructed ranged from 1,845 in 1971 to 26,076 in 1976. All of these units were apartments. The sizes have ranged from 7.5 to 22 pyongs, although some single 32-pyong houses were built for special purposes. The selling prices have ranged from W 1,270,000 for 13-pyong units built in 1971 to W 5,550,000 for the largest single house units.

Overall, KNHC has focused on low-income units and has built high-income units for special purposes, to demonstrate new concepts, or to gain capital necessary to finance low-income units. Within the total KNHC Program, AID has played a significant role: AID financed units amounting to 29 percent of the total in 1973 which increased to 39 percent before dropping slightly to 19 percent in 1976. (See Chart 1) Furthermore, AID funding subsequent to the initial loan has been focused on smaller units to impact the urban poor.

TABLE 16
KIHC Housing Construction By Type
(in thousand won)

Year	Type (Pyong)	Number of Units	<u>Rental Apartments</u>		<u>Housing Built By Private Fund or National Housing</u>		<u>AID Guaranty Loan Apartment</u>		Average Selling Price
			Number of Units	Selling Price	Number of Units	Selling Price	Number of Units	Selling Price	
1971	13	300	100	1,270					1,270
	22	748			748 (Heating)	3,190			3,190
1972	13	200	200	1,220					1,220
	15	109	109 (Single Detached House)	1,875					1,875
1973	13	1,500	1,500	1,360					1,360
	22	1,490					1,490 (Heating)	3,600	3,600
	32	420			420 (Heating)	5,525			5,525
1974	13	4,600	3,600	2,130			1,000	2,200	2,145
	15	2,700					2,700 (Heating)	3,400	3,400
	32	580			580 (Heating)	5,550			5,550
1975	13	12,200	6,000	2,420			6,200	2,430	2,425
	15	3,130					3,130	2,850	2,850
	17	2,410			2,410	3,400			3,400

NOTE: Housing built by private fund is the housing from 1971 to 1974, and national housing is the housing since 1975.

SOURCE: Pratt, Richard T. and Associates. Housing Finance in the Korean Economy. From data furnished by KIHC.

TABLE 17.

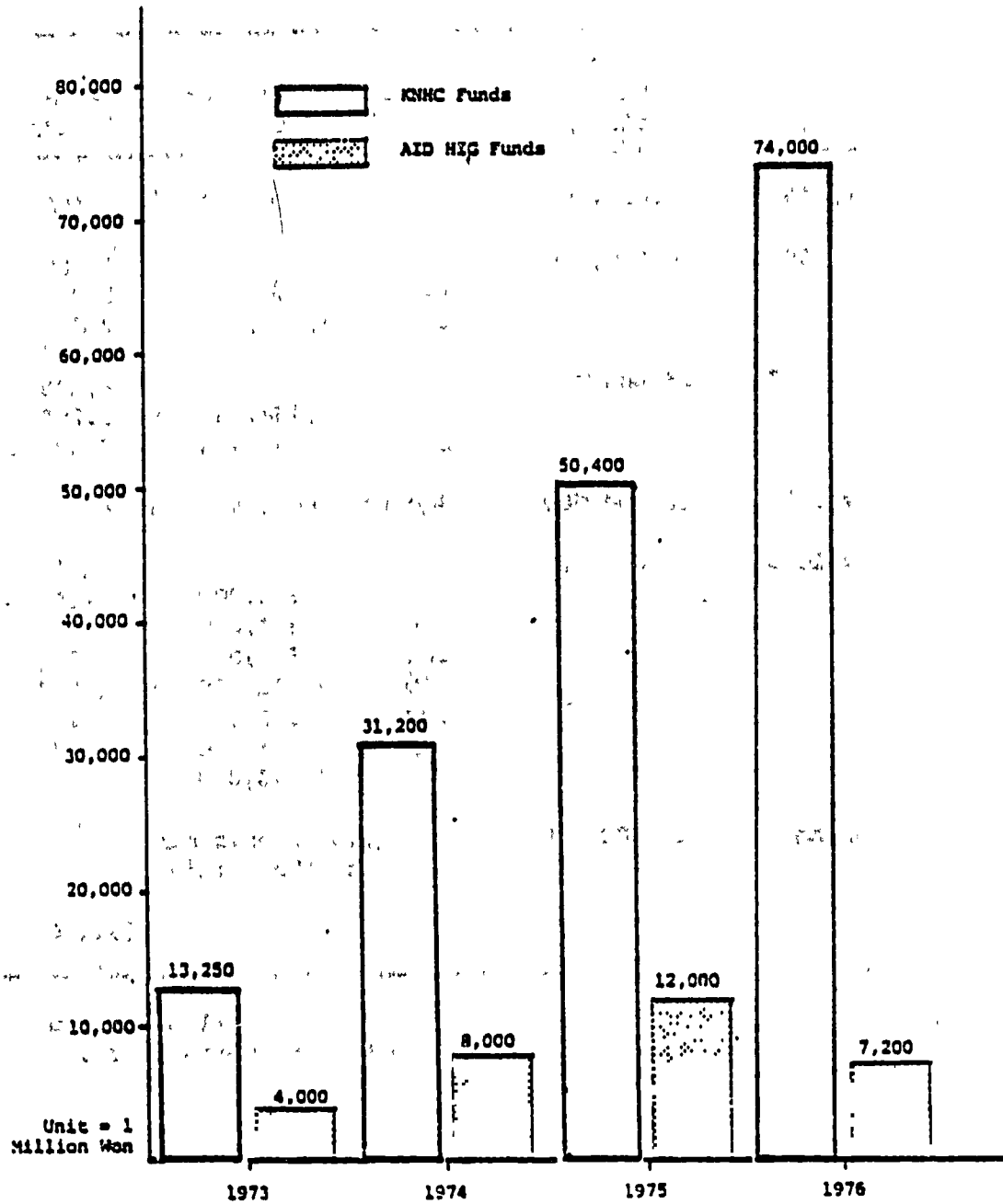
AID HIG Program
in Korea 1/

HG #	Date	Loan Value (Dollars)	Unit Size (Pyongs)	Cost Per Unit (won)	Number of Units
001	April 1973	10,000,000	22	4,320,000	1,490
002	April 1974	20,000,000	13	2,200,000	3,700
			15	3,400,000	1,000
					2,700
003	April 1975	25,000,000	13	2,488,000	9,200
			15	2,666,400	6,200
					3,000
004	July 1976	10,000,000	Squatter upgrading in Seoul		
005	July 1976	15,000,000			4,710
			7.5A	1,963,000	500
			10B	2,314,000	600
			10C	2,508,000	600
			13D	2,748,000	1,000
			10E	2,572,000	240
			13F	2,706,000-	1,770
				2,943,000	
006	Unsigned	10,000,000	Squatter upgrading in other cities		
All		90,000,000			19,100

NOTE: 1/ HG 004 was implemented by Seoul City. All other projects were executed by the Korean Housing Corporation.

SOURCE: PADCO, based upon data furnished by USAID.

CHART 1
KNHC Annual Budget for Housing Construction



Source of KNHC budget data: Korea National Housing Corporation. Brochure entitled "Korea National Housing Corporation." KNHC, October 1976.

Chapter VII

CONCLUSIONS ON THE HIG APARTMENT PROJECTS

The HIG-financed apartment projects have resulted in construction of 19,000 units to the benefit of over 100,000 people. The following pages summarize the major conclusions concerning this effort.

A. CONFORMANCE WITH IMPLEMENTATION AGREEMENTS

KNHC has implemented the apartment loans efficiently within the estimated cost figures and has fully complied with the implementation agreements."

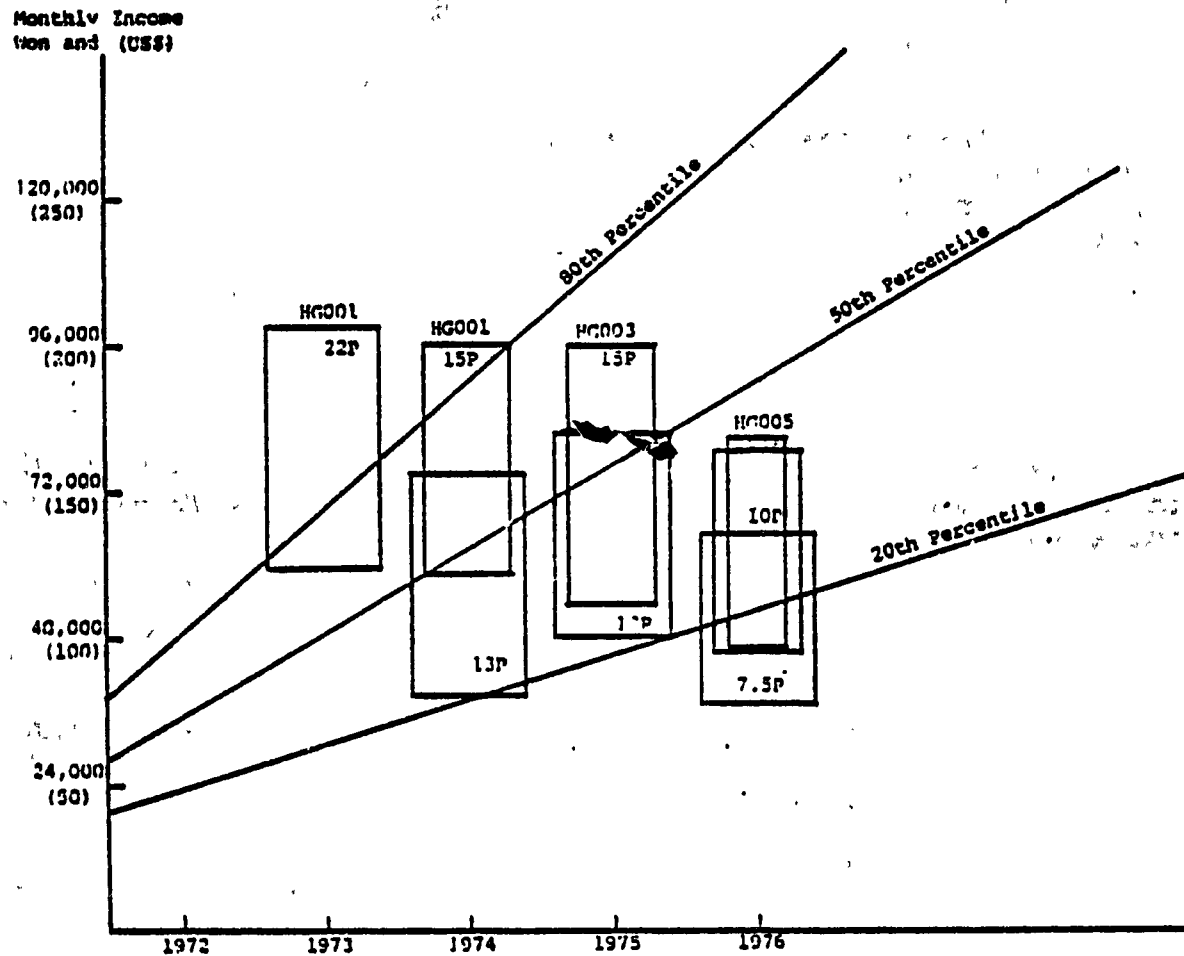
B. TARGET GROUPS REACHED

One of the outstanding achievements of the HIG Program in Korea is that it has moved from a project benefitting primarily upper-middle-income groups (the 65th percentile or above) to a program which benefits groups in the low-income range (possibly as low as the 10th or 15th percentiles). The overall progress of levels of income for the target groups of Korean HIG Programs is shown in Chart 2 and outlined in Table 18.

C. COSTS

Cost reductions, while maintaining adequate quality, have been an objective of the program from the beginning. This has been achieved through careful engineering and architectural design and efficient implementation. The prices of the various types of units, corrected to 1975 prices, are shown in

CHART 2
Income Level of AID/HG Apartment Occupants
1973-1976 1/
(Current Prices)



NOTE: 1/ Income at year end.

SOURCE: Income estimates are from the Economic Planning Board, Bureau of Statistics. Annual Report on the Family Income and Expenditure Survey, 1972, 1975 and 1976. The income range for the HG 002 Project came from a user survey. Other figures are estimates based on the costs and terms of financing. For a further description see: U.S. Agency for International Development. Korea Housing Guaranty Paper 1975, Annex XV and Project Paper 1976, Annex V.

TABLE 18

AID HIG Projects Versus
Income Level of Occupants
(in won)

Year	Type (pyong)	Monthly Payment During Grace Period	Expected Income of Occupants	
			High	Low
1973	22	14,856	99,040	59,424
1974	13	11,280	76,000	38,000
	15	17,440	96,000	58,000
1975	13	20,633 <u>1/</u>	82,532	47,161
	15	23,787 <u>1/</u>	95,148	54,370
1976	7.5	16,091 <u>2/</u>	64,364	36,779
	10.0	14,069 to 19,834 <u>3/</u>	79,160	45,234
	13	15,449 to 22,527 <u>3/</u>	81,889	46,793

NOTES: 1/ 50 percent AID-financed loan with 20 percent supplementary short-term loan in cities outside of Seoul, expected to result in increased payments as a percentage of income during initial repayment period. 2/ 50 percent AID-financed loan -- amount of monthly payment during grace period calculated as if there were a 20 percent supplementary loan. 3/ 50 percent AID-financed loan in Seoul, 70 percent AID-financed loan in other cities. Percentage payments out of income same as in other time periods, related to type of loan.

SOURCE: PADCO analysis.

Tables 19 and 20. These show that there is a gradual decrease in per-pyong costs as the units increase in size from 7.5 pyongs to 15 pyongs; that the costs in Seoul are cheaper than in the secondary cities; and that the costs of a central heating system may raise total apartment costs by 15 percent.

Since 13-pyong, centrally-heated units have been built each year since 1974 in Seoul, it is possible to compare the costs of these to price and income levels. Table 20 shows that the costs have increased roughly 25 percent since 1974 while the GNP price index has increased by 43 percent and GNP per capita has increased by 55 percent. Thus, the costs of the units have been held below the general level of price increases and below presumed per capita income increases, in spite of rapid increases in the prices of building interests.

D. FEASIBILITY OF CONDOMINIUM APARTMENTS

One of the objectives of the ROKG has been to demonstrate to the private sector that condominium apartments could be constructed economically and sold in competition with single-unit houses and other traditional forms of housing in Korea. This objective for Seoul and the secondary cities (and for different income levels) appears to have been achieved throughout the country. The result has been private sector construction of apartments in Seoul whereas previously there had been little construction of this type.

E. CONDOMINIUM MANAGEMENT

It is evident, from the external appearance of the buildings, that the condominium system of ownership and maintenance of buildings developed for AID-financed apartments has been functioning well.

F. DESIGN

Clearly, AID involvement has influenced the economics of design, but the extent to which it has influenced physical aspects is not known. All of the projects appear to function well as physical spaces, although the overall appearance to Western eyes is often strongly regimented and not always sensitive to the topography.

TABLE 19
Cost of AID-Financed Apartments
(in won)

Project	Cost Per Pyong (Current Prices)	Cost Per Pyong (1975 Prices)	Year	Type	Number Built	Where	Heating System	Price Index
HG 001	163,636	257,209	1973	22	1490	Seoul	Central	.636
HG 002	169,231	210,010	1974	13	1000	Seoul	Central	.806
	226,667	281,285	1974	15	2700	Others	Central	.806
HG 003	191,385	191,385	1975	13	6200	Seoul	Central	1.00
	191,093	191,193	1975	15	3000	Others	Central	1.00
HG 005	261,733	227,589	1976	7.5	500	Seoul	Central	1.150
	231,400	201,213	1976	10	600	Seoul	Ondol	1.150
	250,800	218,082	1976	10	600	Seoul	Central	1.150
	211,385	183,809	1976	13	1000	Seoul	Central	1.150
	257,200	223,648	1976	10	240	Other	Ondol	1.150
	208,153	188,923	1976	13	1770	Other	Ondol	1.150
	226,385							

SOURCES: Implementation Agreements. Also, Richard T. Pratt and Associates. Housing Finance in the Korean Economy.

TABLE 20
Cost 13-Pyong Apartments, Seoul
(at current prices)

	1973	1974	1975	1976
Cost Per Pyong/For 13-Pyong Unit With Central Heating System		169,230.77	191,384.61	211,384.61
Index		1.000	1.131	1.249
Price Deflator	139.9	177.2	219.9	252.89
Index		1.00	1.241	1.427
GNP Per Capita	149,777	202,593	261,835	313,000
Index		1.00	1.292	1.545

SOURCE: Richard T. Pratt and Associates. Housing Finance in the Korean Economy.

G. SITE SELECTION

Site selection of KNHC projects shows them to be well located. Assistance is being provided at present in market analysis and site selection by AID advisers.

H. ECONOMIC AND FINANCIAL ASPECTS OF PROJECT PREPARATION

To some extent, repetition of similar projects by KNHC ensures that economic and financial aspects will be kept within known bounds. The overall quality appears to be quite high. AID assistance may have resulted in increased consciousness of the costs of projects and of their economic and financial aspects, as evidenced in present KNHC studies and project preparation procedures.

I. MAINTENANCE OF VALUE MECHANISMS

The original 1971 AID Pre-Investment Survey contained a variable mortgage system, with mortgage values and payments periodically readjusted in accordance with a specified index and the entire burden borne by the purchaser. Subsequently, a system was developed in which the purchaser bears the burden up to a specified level, after which the government assumes the rest. The present system appears to work satisfactorily, although it does generate a liability for the government. An option proposed in the recent Pratt report is for mortgages which are renegotiable at periodic intervals. Whether or not this would be preferable to the present system remains to be evaluated.

J. REPAYMENT MECHANISMS

The present terms of finance in AID apartments are generally for 50 to 70 percent down payment with a 10-year grace period and a 25-year repayment period. Interest rates are of the order of 9.0 to 10.0 percent. This is a lower down payment, longer repayment period and slightly higher interest rate than for most subsidized Korean national housing fund loans. In terms of market acceptance and ease of administration, the system appears to work well. The grace period is, essentially, in lieu of regularly increasing payments. Such

increase might be more effective on paper but would be more difficult to understand and administer.

K. MONITORING

One of the potentially more useful innovations achieved as a direct result of AID's involvement in Korean housing has been the introduction of user surveys. One of these (for the 1974 project) has been accomplished and a larger-scale survey is currently underway. The results can feed back directly into design or into overall program management, in numerous ways. KNHC has hired staff and created a unit specifically for such work, which holds promise of a continuous survey and monitoring process.

L. SUBSIDY

Although the AID-sponsored projects are sold at prices which fully reflect costs to KNHC (including costs of capital and land), the present relending rates of 9.0 to 10.0 percent are a substantial subsidy in terms of Korean capital market rates. These often go as high as 20 to 25 percent or higher. The net effect is that the buyer receives a 40 to 50 percent subsidy on the loan amount. This means that resales of mortgages, despite administrative restrictions, are likely to be frequent and that the subsequent purchaser is likely to have a higher income than would be deduced from an analysis of payments versus income levels.

M. REPLICABILITY

If there were sufficient international capital available to enable the financing of all housing in Korea at such rates, the implicit interest rate subsidy would mean only higher consumption of housing. This could be justified on social grounds. Since such funding is not available, however, it means only that those who are fortunate enough to be selected for an AID- or government-financed housing unit are much better off than those who are not. Others must continue to finance their housing out of savings, off the "curb market," by incremental building or by repetitive moves. The present housing finance system is not replicable, and AID is actually encouraging higher interest rates for mortgages throughout the housing finance system. This, in turn, would require

further reductions in house size in order to reach the same target groups currently reached.

N. STAFFING AND INSTITUTIONAL CAPACITY

AID's HIG Program in Korea has resulted in substantial improvements in the staffing of KNHC. Its staff is clearly capable of more than adequate engineering design, project preparation and management. Furthermore, it is developing social survey and research skills. It has a capable financial management office, as exemplified by the current low rate of defaults in housing loans. The overall atmosphere is one of initiative and confidence -- the signs of a good organization in any situation.

Chapter VIII

THE SPECIFIC PROJECTS FINANCED

The following pages summarize each of the four HIG loans used to finance apartment development in various forms (see Table 21.) A statistical summary of each project is found in Appendix II. All of the projects were executed by KNHC.

A. HG 001 (1973) BANPO APARTMENTS

HG 001 was intended, under the AID Office of Housing Policy of 1973, as an upper-middle-income housing project. It was conceived in accordance with objectives of the Korean Government and was intended to yield a high rate of economic return. The loan amount was US\$ 10 million which was to finance 1,490 22-pyong apartments. The objectives of the project were as follows.

1. To demonstrate the feasibility of reasonably priced standardized apartments under optimum land usage.
2. To demonstrate long-term financing of housing under reasonable terms.
3. To generate ROKG interest in the viability of an expanded housing program and in the long-range institutional goals and objectives enumerated in the Pre-Investment Survey. 18/

18/ U.S. Government, Agency for International Development. Housing Guaranty Paper: Korea 001, 1972. pp. i, ii, 2, 3, 8.

TABLE 21
of AID HIG Loans in Korea

Title	Date	Amount of Loan (US\$)	Number of Units	Likely Income Level (Percentile)	Mortgage (Percent)	Sales Price (won)	Down Payments (won)	Down Payments (won)
HG 001	March 1973	10 million	1,490	65 or above	75	3,600,000	915,600	14,856
HG 002	April 1974	20 million	3,700	25 or above	70	2,200,000- 3,400,000	653,000- 1,010,000	15,350 23,715
HG 003	July 1975	25,000	9,200	25 or above	50 <u>1/</u>	2,488,000- 2,866,000	1,244,000- 1,433,200	9,833 23,787
HG 004	July 1976	15 million	4,710	10 to 45	50 <u>2/</u>	1,963,000- 2,943,000	981,500- 1,471,500	7,670 16,099
HG 005	July 1976	10 million	4,000 +	10 to 60	90 <u>3/</u>	varies	varies	varies

NOTES: 1/ Plus 20 percent supplementary in secondary cities. 2/ 50 percent in Seoul; 70 percent in secondary cities. 3/ Of land purchase price.

SOURCE: PADCO analysis.

Several innovative features were introduced in the project, including a variable payment mortgage schedule, a maintenance-of value mechanism to protect the Government and AID against possible devaluation of the won, and anti-speculation measures.

Apartments were to be under condominium ownership in which a regulatory agreement governing buildings on each site was to include provision for home owner's use and joint ownership of their respective building facilities. Such condominium ownership was also to provide for use of utilities, streets, playgrounds, community structures and other facilities located on each project site.

The maintenance-of-value mechanism adopted to protect the lender against possible devaluation of the won consisted of the following.

1. A 2.14 percent per annum charge as part of the mortgage repayment.
2. A W 225,000 portion of each buyer's down payment.
3. A deposit by the Government into an escrow account to make up any remaining deficit.

The increasing mortgage repayment schedule was based upon a fixed increase in the home owner's payments every six months. The relative amount of the increase was 5.0 percent of payments in the first six-month period. This decreased thereafter, as the amount of increase became smaller relative to the amount of payment. The purpose was to reduce initial payments in order to permit persons with incomes lower than required to pay a fixed-payment mortgage. These persons expected their incomes to increase in order to qualify for a loan. The objective adopted in October 1973 for HG 001 was to serve the income group of W 60,000 and over with the mortgage requiring 25 percent of monthly incomes. 19/

19/National Savings and Loan League. Fiscal and Management Review: Korea 001, 002, 003 and 005. (Prepared under contract to AID.) January 3, 1977. p. 23.

The intended impact of the financial system can be understood by comparing the terms adopted for HG 001 for the 22-pyong apartments financed in 1973 with the terms of the 15-pyong apartments financed in 1974. The larger apartments financed in 1973 actually had smaller down payments and smaller initial monthly payments, as a result of the variable payment system used.

1. Relevance of Objectives

The objectives set for HG 001 were typical of the AID policy of that time but would no longer be applicable. The adoption of the variable mortgage payment system indicates that there was some concern for income levels.

2. Achievements

a. Execution and Occupation

The project was executed very quickly, and marketed with great success. It resulted in 8,300 applications for the 1,490 apartments available.

b. Population Groups

No end-user survey has been undertaken, but the applicant screening procedures adopted required, as a general guideline, that no more than 25 percent of an applicant's income be used to repay the mortgage. Thus, the minimum monthly income required in 1973 was approximately W 59,000 (roughly the 75th percentile of the income distribution of that time).

c. Finance

The management report submitted in January 1977 by the National Savings and Loan League concludes 20/ that the

20/ National Savings and Loan League, p. 26.

variable payment mortgage system is well-suited to the present economic situation of the actual Banpo apartment buyers. A caution is included, however, that it is possible that problems could arise in the future, if the rate of income growth slows. However, the decreasing percentage of increase should provide some protection against this occurring. Despite its apparent success, the variable payment system was not adopted by KNHC for subsequent projects. Instead, a system of an initial grace period followed by an amortization period has been followed.

The maintenance-of-value mechanism adopted for HG 001 was based upon an expected rate of exchange of four percent per year. There has occurred one devaluation since 1973, from W 400 to W 480 to the dollar. The fund was found less than adequate to compensate for the increases incurred to date.

The long-term finance made available for the Banpo apartments occurred at roughly the same time as the build up of the Korean National Housing Fund. AID contributed to a demonstration of the long-term mortgage finance concept as one of several such projects. Although the terms of AID's HIG funds to the buyer involve a higher interest rate than most National Housing Fund loans, they are substantially below the probable rate that would balance the supply of capital with demand. Thus, the AID loan helped demonstrate that higher interest rates are feasible for buyers.

4.

d. Market Feasibility

One of the impacts believed to be attributable to HG 001 was a demonstration of the market feasibility of such apartments, in order to encourage the private sector to enter the field. Although this type of impact is difficult to assess thoroughly, several private-sector projects similar in design which were constructed after the Banpo apartments were observed during the field survey phase of the case study. It appeared that relatively little apartment construction had been undertaken prior to 1973 by the private sector, while there are now many projects under construction.

B. HG 002 (1974) CONSTRUCTION OF APARTMENTS IN SIX CITIES

HG 002 was formulated in 1974 during a time of reassessing the overall AID shelter sector policy. It constituted an

effort to reduce costs and reach lower-income groups while building upon the goodwill and rapport achieved in HG 001. The loan amount was US\$ 20 million. It financed 3,700 13- and 15-pyong apartments. The objectives of the project were as follows.

1. To construct lower-cost, reasonably-priced city apartments in six cities, in order to . sell houses to lower-income families and to demonstrate viable systems of finance and technology.
2. To support the preparation of a Korean National Housing Policy and Construction Plan.
3. To channel research and planning efforts in a manner consistent with AID's shelter sector policy.
4. To make possible the institutional milieu through which ROKG shelter sector needs can be provided. 21/

The 13-pyong units were ondol heated while the 15-pyong units were centrally heated. This difference gave rise to the large per-unit cost differential between the two.

KNHC's agreement to build smaller, lower-cost apartment units than originally contemplated 22/ in six cities 23/ represented a major change for KNHC during negotiations with AID.

21/ U.S. Government. Agency for International Development. Housing Guaranty Paper. Korea HG 002, p. 16. USAID, March 4, 1974.

22/ KNHC originally proposed the same size apartments as constructed in the initial guaranty project to sell for US\$ 9,000 under current costs.

23/ The preliminary application proposed construction only in Seoul, Pusan and Taegu.

KNHC hesitated to build smaller units and to undertake construction in a number of additional cities because of its concern over marketability and possible delinquencies in repayment of home owner mortgages. In smaller cities, such as Taejon, Kwangju and Inchou, there is the additional market factor of gaining acceptance of apartment buildings over single family houses.

The mortgage loans for HG 002 were for 70 percent financing with a 25-year repayment period. Instead of the variable-mortgage system used in HG 001, the system adopted for HG 002 included a 10-year grace period during which only interest was to be paid. After 10 years, the amortization period was to begin. This has the effect of reducing the financial burden during the time after purchase while increasing it later, when the income of the household should be higher. It would accomplish the same general objectives of the variable-payment system but would not be as effective. A problem could be created for some households when the amortization period begins as a result of the magnitude of the increase.

Initially, it was expected that changes in liability related to changes in the exchange rate of the won could be passed on to the home owner as an increase in monthly payments. However, protests were made against the actions taken shortly after initial occupancy, when the won was devalued from W 400 to W 480 to the dollar. As a result, the initial grace period of the mortgage was extended to 10 years and a new, shared system was developed for the maintenance system. The system finally adopted provides for the home owner's mortgage to be increased by 25 percent of the increased repayments caused by devaluations of the won, up to a minimum of four percent per year. All fluctuations in excess of that are to be paid by the Government. Thus, the relative amount passed on to the home owner is less than it was in HG 001, and the amount for which the Government is liable is greater.

1. Relevance of Objectives

The objectives of HG 002 included, for the first time in Korea, an explicit reference to lowering costs in order to provide housing which lower-income households could afford. In addition, there was a strong concern for policy and institutional development.

2. Achievements

a. Execution

As was the case with HG 001, HG 002 was executed quickly. All the units were sold as planned, in spite of a prior concern that demand might be low in the secondary cities.

b. Target Groups

As called for in the project paper, an end-user survey was conducted for the HG 002 units. The survey concluded 24/ the following points.

1. The majority of 13-pyong apartments were purchased by families with incomes between the 30th and 62nd percentiles.
2. The majority of 15-pyong apartments were purchased by families with incomes between the 47th and 71st percentiles.
3. The occupants were spending from 15 to 31 percent of their incomes on the mortgage, as compared to the 25-percent level anticipated in programming. A few were spending as much as 40 percent.

It is possible, even likely, that there was some under-reporting of incomes in the survey. Nevertheless, the survey results indicated substantial achievements by AID in reaching income groups below the 50th percentile, even though specific percentile limits had not been made a condition of the project paper.

24/ Department of State, Agency for International Development. Housing Guaranty Paper: Korea Housing Investment Guaranty FY 1975, Annex XV, pp. 2 - 6. AID, May 5, 1975.

c. Reductions in Costs

Relative to HG 001, HG 002 was a much lower-cost project. In spite of its more difficult finance terms, it is still likely to have reached lower-income groups. The 13-pyong units in HG 002 were much lower in cost. However, the majority of HG 002 units were 15-pyong units. They cost almost as much as the 22-pyong units of the previous year and required a higher down payment as well as higher monthly payments. Steps were taken to reduce costs still further in HG 003.

d. Terms of Finance

The decision to move from the variable-payments mortgage system of HG 001 to the system used in HG 002 was based on two considerations: the need for a maintenance-of-value mechanism which put more of the burden on government; and the perceived need to acquire experience with the variable-payment system before relying heavily upon it. This resulted in terms less amenable to the purchaser which were countered by reduction in the size of the units in order to bring initial payments down.

C. HG 003 (1975) CONSTRUCTION OF APARTMENTS IN SEOUL AND OTHER CITIES

HG 003 consisted, as did HG 002, of 13- and 15-pyong apartments. These were located in Seoul and other cities. The amount of the loan was US\$ 25 million -- the largest to date -- which financed the construction of 9,200 units.

The objectives of HG 003 were as follows.

1. To increase the housing stock in major urban areas which could be owned by households below the 50th percentile.
2. To encourage lower-income groups to adopt apartment living in order to increase population density of urban areas.

3. To encourage KNHC to reduce costs through more rigorous design and cost comparisons. 25/

The primary objective was to reduce costs, primarily through redesign, and to thereby reach still lower-income groups. Although relative costs were reduced substantially in HG 003, a larger (50 percent) down payment was proposed initially. This increased the initial capital required considerably. As the units were marketed, it became apparent that many households outside of Seoul did not have the capital to put up such a large down payment. Therefore, a second loan for 20 percent of the cost, repayable over five years at an interest rate of 9.5 percent, was made available to buyers. The prospective purchaser was, thus, confronted either with higher initial capital requirements or with much higher payments for the first five years. The benefit of the 50 percent down payment was to increase the number of units that could be funded, but it made the down payment the constraint upon a prospective purchaser, rather than an income. The 50 percent down payment system is, nonetheless, closer to the present practice when public-sector financing is not available and the household must borrow from family or use "key money." The KNHC anticipated that this might be a problem and had an option in the HIG agreement which would have permitted them to rent the units until they were sold, but this did not become necessary and was not utilized. The maintenance-of-value mechanism in HG 003 was the same as developed for HG-002 after devaluation of the won. It made the home owner liable for increases in costs resulting from a devaluation up to a fixed percentage with the government responsible for further cost increases.

All of the units in the 1975 program were ondol heated, with an improved forced-draft design which effectively eliminated health risks and resulted in a substantial cost reduction relative to the 1974 program.

1. Relevance of Objectives

For the first time, AID set for HG 003 the objective of reaching income groups not higher than the 50th percentile.

25/ U.S. Government, Agency for International Development. Housing Guaranty Paper: Korea #HG003, p. 20. USAID, May 5, 1975.

This was to be achieved primarily through redesign, within the existing apartment concept. The actual cost reductions achieved were substantial. The objective which encourages increases in density in urban areas has greatest relevance for large cities such as Seoul and Pusan.

2. Achievements

a. Execution and Occupancy

The physical construction of all units in HG 003 has been completed, and most of the units have been occupied. However, in November 1976, KNHC still had 241 unsold apartments in different areas outside of Seoul. 26/ Some were being advertised and a few had been sold. The primary reason for the vacancies seemed to be that they were being held for workers expected to occupy them upon completion of certain industrial projects.

b. Target Groups

Because the terms used for HG 003 differed from those used in HG 002, it is difficult to assess the likely income groups that will occupy HG 003 apartments. Assuming the buyer takes both the 50 percent and the 20 percent loans and is willing to pay a minimum of 25 percent income on the two loans, the income range would be from approximately the 30th to the 65th percentiles.

c. Costs

One of the major objectives of HG 003 was to reduce building costs, or at least to hold them below the rate of inflation. This objective was largely achieved by designing and building improved ondol heating in the 15-pyong units and, to a lesser extent, was achieved through better design. For the sake of comparison, the cost of the 13-pyong units increased at roughly 10 percent from those built in HG 002.

26/ National Savings and Loan League, p. 2.

This increase was somewhat below the rate of increase in building costs.

D. HG 005 (1976) CONSTRUCTION OF APARTMENTS
IN SEOUL AND SMALLER CITIES

The HG 005 program financed 4,710 units of 7.5-, 10- and 13-pyong size in Seoul, Pusan and other cities. The total loan was for US\$ 15 million. Fifty percent financing was provided for the units in Seoul, with 70 percent in the secondary cities in order to allow the financing of as many units as possible. A strong effort was made to reach the lower-income groups by introducing the smaller 7.5- and 10-pyong apartments.

The objectives of HG 005 were as follows.

1. To assist the ROKG to meet a broader segment of the lower-income housing demand, utilizing high density to reduce per unit land costs.
2. To test the viability of "nuclear core" (small) apartment units (7.5- and 10-pyong) as a means of lowering shelter costs and reaching families not presently benefiting from public housing.
3. To assist ROKG to study its housing finance system and consider alternatives which could better meet the goals and investment requirements of the housing goals outlined in the National Housing Policy. 27/

The units outside of Seoul in the 1976 program were ondol heated, and in Seoul they were centrally heated, in order to satisfy the needs of different families with different habits and budgets.

27/ Department of State, Agency for International Development. Project Paper: Republic of Korea-Korea National Housing Corporation (KNHC). USAID, June 16, 1976. p. 6.

The maintenance-of-value mechanism adopted in HG 005 was essentially the same as in HG 003 with the home owner liable up to a fixed amount and the government accepting any further cost increases.

Relative to past KNHC practice, the 7.5- and 10-pyong apartments represented a substantial innovation. Apartments of this general size had been built previously, in the late 1960s but not during the recent past.

1. Relevance of Objectives

As in HG 003, the objectives of HG 005 were a good framework for a project intended to provide housing for the lower-income groups. As in HG 003, the principal way to achieve this was to provide new housing in apartments, thus reducing land costs. This strategy was most relevant in Seoul, Pusan and smaller cities with severe land constraints. It was a less relevant plan for smaller cities where land values are lower and distances much shorter.

2. Achievements

a. Execution and Occupancy

As of December 31, 1976, HG 005 was approximately 97 percent complete in physical terms. Almost all of the apartments have been constructed. The remaining work consists of interior finishing, painting, street surfacing and landscaping. Conversations with KNHC officials in February 1977 indicated that, although there were sufficient applications for the 13- and 10-pyong apartments, applications for the 7.5-pyong apartments were being received slowly. Thus, there may be some problem in achieving market acceptance of the smallest units.

A visual inspection of these units revealed that the overall quality and appearance of the apartments and the neighborhoods are good. The interior design provides minimal, but adequate, space for living with entrance, kitchen and bath facilities and one room (approximately eight feet by 150 feet) which can be partitioned into two by the occupant.

Clearly, the 10-pyong, two-bedroom apartment is more satisfactory. The market acceptability of the 7.5-pyong apartments may ultimately depend on three key factors: 1) their

cost relative to the 10- and 13-pyong units (unit costs are higher for the smaller units because of an equal amount of stairway space); 2) the relative availability of other accommodation, including small rental units and small-site housing; and 3) the degree of satisfaction of the first residents, coupled with KNHC's persistence in offering the units for sale in order to overcome initial buyer reluctance. It is the preliminary opinion of this Case Study team that 7.5-pyong units or (say) 8.0- to 9.0-pyong units should be continued in the larger cities, such as Seoul, while a row house or small sites development program may be more acceptable and feasible in the secondary cities.

b. Target Groups

The HG 005 apartments are smaller than HG 003 units, are generally of similar design and costs, and are financed on the same terms. Therefore, it is to be expected that they will reach lower-income groups. The extent to which lower-income groups will actually occupy the units will depend, first, upon a successful marketing and sales program and, second, upon either an ability to pay the 50 percent down payment required or KNHC's willingness to provide an additional "second" loan (as was done for HG 003). Because of these unknowns, there is some uncertainty over the population groups likely to occupy the HG 005 apartments. Generally, however, they will have incomes of W 86,000 per month or less and will be below the median income. Depending upon the capital available to the lower-income groups, the units could reach to the 20th percentile or go significantly below it to the 10th percentile. This would be a substantial achievement indeed.

c. Costs

The costs of the HG 005, 13-pyong apartments are approximately 10 percent higher than those constructed one year previously under HG 003. Thus, it is likely that costs were held at or below the increase in general construction costs. It is interesting to note that the costs per pyong increase substantially for 10- and 7.5-pyong units relative to 13-pyong units. In turn, this reduces the total cost difference. Furthermore, the relative cost difference is greater between the 7.5- and 10-pyong units than between the 10- and 13-pyong units, suggesting that the standards used for the 7.5-pyong units are also relatively lower.

d. Financing

The financing proposed for the HG 005 project corrects the severe repayment problem created with the second (20 percent) loan resorted to by KNHC in HG 003. The terms are 50 percent financing in Seoul and 70 percent in the secondary cities, with a 10-year grace period and 15-year amortization period. The same maintenance-of-value mechanism is used in HG 005 as in HG 003. This suggests that KNHC is relatively happy with the present system.

Chapter IX

THE HOME IMPROVEMENT PROGRAM

The HIG Program for 1976 included, for the first time, a borrower (Seoul City) other than KNHC. It also included a new program concept, settlement upgrading instead of apartments. Both these objectives had been very much sought by AID from late 1974, following an AID technical assistance mission ^{28/} that had reported that the physical potential for upgrading in Seoul was excellent because of the basically high standard of illegal settlement housing, the generally good locations of the areas near employment and, most important, because of a substantial amount of settlement on land already owned by Seoul City.

Seoul and some of the other cities of Korea have, since the late 1960s, practiced redevelopment of slum areas. In some cases, particularly where most of the land was privately owned, this meant improvement of streets and infrastructure while retaining the existing housing. However, in many other cases, redevelopment of slum areas meant total clearance and construction of new housing units on the same site. In the latter case, the original slum house owners were given several options.

1. Accept minimal financial compensation.
2. Purchase a lot with a KHB loan in the redevelopment area.
3. Lease a city-owned rental housing unit.
4. Purchase a lot in a suburban resettlement area.

^{28/} See memorandums from Alfred P. Van Huyck, President of PADCO, to the Office of Housing pertaining to field visits to Korea in October and December 1974.

In the event of lot purchase, the terms ranged from immediate cash to a five-year payment period. In most cases, the original low-income house owners were unable to afford a lot in the redevelopment area.

In addition to the loss of valuable housing stock, the redevelopment program was not financially successful: the Director of the Seoul City Housing Bureau puts the average deficit at close to 30 percent.

Early discussions with Seoul City housing officers, in late 1974 and early 1975, showed a large gap between the objectives of settlement upgrading as conceived by AID and the total demolition, replanning and reconstruction of areas at very high physical standards as contemplated by Seoul City. Even communication was difficult because both parties were using the same words -- upgrading, rehabilitation, etc. -- with completely opposite meanings. This led from a period of thinking there was agreement on both sides to a discovery that there was a misunderstanding.

For example, the AID mission in February 1975 negotiated a memorandum of understanding which set forth guiding principles for the Home Improvement Program. Yet, returning in June 1975 it was discovered that the specifics of that memorandum had not been fully understood. The June 1975 AID mission rediscussed the basic principles and set forth a detailed handbook report which included specific criteria for site selection as well as the general principles to be followed.

It was recognized by all parties, however, that the specific details of the Home Improvement Program would have to await detailed planning under specific field conditions. It was decided to proceed to authorize the HIG loan in advance of obtaining detailed plans, because it was felt that this commitment would facilitate preparation of the required plans. AID, of course, retained control over fund disbursements until the plans and procedures were actually worked out in a satisfactory manner. This approach was correct, as it got the program moving faster than would have been possible if all of the prerequisite work had been demanded in advance while involving no real loss of control by AID.

The National Housing Policy of May 1975, prepared by the Ministry of Construction et al, added validity to the effort to induce Seoul City to start on a Home Improvement Program which would seek to preserve the maximum amount of the existing housing stock in illegal settlement areas and to make arrangements for providing these areas with secure land tenure. AID took more initiative in pressing for this program

than it had with other KNHC projects because of the reluctance of Seoul City officials and because the technical issues were new and very different from their previous experience. In June 1975, AID sent a team of consultants to Korea to actually draft the outlines of the Home Improvement Program it sought and to advise the Seoul City professional staff on preparation of needed documentation.

On the February 1975 mission, it was discovered that Seoul City had previously hired a Korean consulting firm to prepare detailed plans for clearance and redevelopment of some 196 illegal settlement areas. Further, these plan drawings were held in the Housing Office, waiting allocation of finance to proceed. The initial reaction on the part of Seoul City was to utilize these plans, even if the housing stock which did not need to be moved for new, wide, high-standard streets, abundant park lands, etc. was to be left. This, of course, was unsatisfactory to AID. It pointed out that this type of upgrading resulted in much too high a level of house removal and that planning for upgrading was a different type of approach. Nonetheless, the obvious reluctance to abandon the elaborate plans previously prepared, coupled with their inherent desire to raise physical standards, meant another long period of review and discussion regarding fundamental planning approach issues.

Although HG 004 was intended to be financed in 1975 with HG 003, the implementation agreement was not signed until July 1976, over a year after HG 003. The delays were basically a result of the more complex nature of the project and of the newness of the concepts.

The main point to be noted in this brief summary of a protracted and intensive dialogue is that the Korean view should not be considered unusual or unreasonable on the part of the Koreans. In most developing countries, the professional specialists trained in housing and planning come out of a background of design architecture or engineering which has provided them with little training in social and economic or public finance issues (the essential cornerstone upon which upgrading and sites and services projects are based). Therefore, there is need for a reorientation which almost always must take place before the professional cadre of a country can intellectually begin to support these forms of projects. This is never a simple or quick process, even though it often appears that it should be self-evident to the trained professionals of the international assistance agencies.

Facilitating the work of AID throughout these discussions was the combined support of the KNHC, the Ministry of Finance and, to a lesser extent, the Ministry of Construction. (The MOC agreed in principle but had difficulty with a number of the specifics, such as minimum lot sizes, etc.) The reason for this combined support was, primarily, because of

their own concern, fostered by AID, that the entire HIG Program in Korea was dependent upon the achievement of a satisfactory upgrading program in Seoul. Here is an example of an appropriate use of leverage by AID and its closely-related Korean counterpart agencies to introduce innovation. It illustrates one of the main advantages of multi-year HIG lending programs and the build up of mutual respect and rapport.

It can be concluded that, had AID not had its previous HIG projects for apartment construction, it would not have been able to induce the settlement upgrading demonstration project.

In spite of undertaking the initial demonstration project, there is still much ahead before the process is institutionalized in Seoul City. Only \$600,000 of the initial U.S. \$10 million loan has actually been disbursed.

A. HG 004 (1976) HOUSING IMPROVEMENT IN SEOUL CITY

HG 004 is for the upgrading of several different squatter and substandard areas of Seoul, with the final number to be determined pending experience in actual implementation. The total amount of the loan will be U.S. \$10 million. At present, a first project is underway at Oksoo: It involves a physical area of 29,600 pyongs and contains 536 housing units accommodating 1,200 households. The loan amount of the first project is estimated at \$600,000, which implies that it may be possible with the entire loan to benefit approximately 20,000 households.

The objectives of the program were as follows:

1. To provide land tenure and improve housing and the environment for lower-income groups.
2. To demonstrate a method for upgrading that would maximize the preservation of the existing housing stock while providing an acceptable urban environment.
3. To demonstrate a method of financing that would allow the program to be replicable within the resources of the Korean economy.
4. To develop processes, institutions and staff capable of sustaining the program.

5. To influence Korean decision-making, by the establishment of objective criteria for assessing the areas to be redeveloped and determining a feasible program for minimal demolition. 29/

Initial infrastructure improvements in the first project are underway. It is contemplated that the first project will be completed in 1977. An excellent physical plan and a draft administrative and financial plan have been prepared for the Oksoo project, which is likely to become the model for subsequent projects as well.

In addition to the Oksoo project, social surveys had been undertaken in most, if not all, squatter areas in Seoul and sites for additional projects to be undertaken under HG 004 had been identified. Negotiations were being held between AID and Seoul City to identify criteria for setting priorities for the additional sites to be developed during the 1977 construction season.

The main concepts of the project are as follows:

1. The area selected is five kilometers from downtown Seoul in a larger area with many hills which is densely built up. The topography of the site is rugged, with steep slopes and rock outcrops. Although there is some privately-owned land in part of the project area, most of the land is city-owned and most of the buildings are illegal. The quality of the buildings ranges from very small, owner-built units of temporary materials to larger houses of brick construction and a quality that would be acceptable anywhere in Seoul.

2. The present occupants of the site include, in roughly equal numbers, home owners and tenants. Many houses are occupied by as many as three to four households, while a few contain only one. The median family incomes, in late 1974 to early 1975, were W 50,000 and W 38,000 among home owners and tenants, respectively. The median income for the urban areas of Korea was approximately W 60,000, as of that date, which indicates that the incomes in Oksoo are substantially below average. Occupants include skilled and unskilled factory workers, clerical workers, transportation workers and workers in the services. Although the majority are in unskilled or semiskilled occupations, there are a number of skilled workers, public officials, teachers, doctors and others. Of 1,200 households, 72 (or six percent) conduct

29/ U.S. Agency for International Development. Project Paper: Republic of Korea, 1976, p. 10. USAID June 16, 1976.

businesses in their own homes. Approximately 50 percent of the owner's households are from the vicinity of Seoul. The average household size is 5.0; most people live in nuclear family situations.

3. The purpose of the project is to upgrade infrastructure by installing improved water lines with house connections, sewer lines (the present method is nightsoil disposal by buckets emptied by sanitation workers), drainage and widening streets. Many of the existing houses are to be improved in place and some are to be replaced completely; but only four are to be torn down without replacement.

A physical plan has been prepared which permit the work to be accomplished with a minimum of loss in existing houses and which retains existing lot boundaries wherever possible. The main road system is sufficient to permit vehicular circulation, while access to many houses is by improved pedestrian walkways. In short, the improvements planned should be sufficient to achieve a much-improved environment with an almost negligible amount of dislocation and relatively low costs.

4. The project is administered by Seoul City. A review procedure has been established which allows the residents to be informed about the plans and comment upon them through their local representatives.

5. A pricing proposal has not yet been finalized. However, it is conceived that all the existing home owners will be given the opportunity to purchase the land on which their houses are built, at a price above the cost of infrastructure and approximating the market value. For the purpose of land purchase, the city is to provide loans covering up to 90 percent of the cost which will be repayable over a period of approximately 24 years. Loans are also to be available for home improvements, or home replacement, at up to maximum amounts of W 600,000 and W 1,000,000, respectively. Although the loans will not be intended to cover all of the costs, there will be available to each household sufficient financing to enable most to purchase the land and improve or replace their homes. The project is expected to yield a financial surplus for the city as the repayments for the land are received. Under these terms, it is expected that a large number of households can be made substantially better off, at relatively little capital cost and without financial subsidy. 30/

30/ The sources of Oksoo #3 project data are unpublished documents provided to AID by the Seoul City Office of Housing. They include data from social and physical field surveys and from a draft Redevelopment Plan.

B. SUMMARY OF ACHIEVEMENTS

1. Relevance of Objectives

The objectives set for HG 004 are directly relevant to the problems of upgrading and of providing housing for the lowest-income groups in Korea. In short, they are a sound foundation for the project work to be undertaken. They are well within the objectives sought by AID.

2. Achievements

a. Execution

Unfortunately, HG 004 as a whole has moved much more slowly than any of the other projects undertaken, from the time of initial negotiation until the present. Except for social field surveys, the only significant action that has been taken in the field has been in Oksoo, and this has itself gone relatively slowly, with infrastructure improvements spanning two construction seasons instead of the one normally required in a new site development project. There have also been considerable delays in the administrative, land purchase and house-building aspects of the project.

Nevertheless, this type of project is basically new to the staff involved and many aspects have had to be learned by actual experience. Furthermore, upgrading is much more complex administratively, physically and socially than building new apartments. Hence, the possibility of delay is greater.

In spite of the progress achieved, there is the possibility that the slow execution may be the result of a lingering commitment in the Seoul City government. For this reason, the 1977 construction season looms as a crucial time in which overall support or lack of support for the project is likely to be demonstrated in action.

b. Target Groups

As described above, the existing population of Oksoo and the other slum areas in which upgrading is contemplated is substantially below the average income level. Most residents' incomes are below the median while many are close to the lowest income levels. The project as presently formulated is

likely to cause a few of the poorer home owners to lose their houses because of a inability to qualify for a loan. It may result in rents being raised in houses which are improved. Thus, it may cause some hardship upon a few; but the overall improvements in basic human welfare for the majority will be substantial.

c. Physical Viability

The Oksoo improvement plans will accomplish a greatly improved environment for the residents and allow emergency and heavy vehicles access to all the houses. Through the improvement program proposed, the area should become equal in physical standards to most of the lower-middle-income areas of Seoul in which small, single apartment houses have been constructed. Continuing house improvements and, perhaps, subsequent neighborhood improvements, building upon the base that is established, should result in a viable and healthy area with long-term occupation potential.

d. Financial

There remains considerable uncertainty over the prices that can be charged while still accomplishing the social objectives of the upgrading projects and, hence, over the long-range financial viability of the projects. Nevertheless, it appears that most home owners will be acceptable credit risks and that the projects should, if managed well in a suitable political framework, achieve an acceptable financial return to permit an ongoing program that will in time be able to improve most of the areas in which improvement is required.

e. Institutional

The institutional changes within Seoul City facilitated by AID include the following: First, the creation within the Seoul City Office of Housing of a special unit to manage the Home Improvement Program. This unit has been staffed and has produced an excellent draft project plan. Second, the creation of a field office on the Oksoo site which sets a precedent for achievement of good community relations in subsequent projects.

C. KNHC UPGRADING PROJECTS

AID has proposed, and the Korean Government has accepted in principle, a second U.S. \$15 million upgrading loan to provide finance for a Home Improvement Program in the secondary cities in 1977 and 1978. The project is conceived to be similar to the one in Seoul, except that instead of negotiating with the city governments directly KNHC will act as the overall administrator to work in cooperation with the cities. Individual cities have been asked to express interest in the program.

Eight tentative sites have been selected in four cities and socioeconomic surveys will be initiated shortly to aid in project formulation and final site selection. The method of identifying potential projects was to make known, through the Ministry of Home Affairs, that the funding was available, with individual cities to decide their interest.

PART THREE

LESSONS FOR THE FUTURE HIG PROGRAM

Chapter X

AN OVERVIEW OF THE ISSUES

The Korean case study has provided an opportunity for analysis of a complex multi-year program in one particular country situation. While the case study has revealed the overall positive impact of the HIG Program in Korea, it has also pointed to some shortcomings which might have been prevented with better forward planning. It has also at least raised the possibility that more might have been accomplished, if a specific overall strategy had been formulated in the beginning and negotiated out with the Koreans to provide a frame of reference for the program.

For example, it is an open question whether AID could have had a greater influence on the Korean Housing Bank (had this issue been addressed as a part of a comprehensive strategy). If KHNC, MOC, and the Ministry of Finance had committed their leverage to obtain the needed reforms, it is likely that it would have helped. Technical assistance might also have been more effectively utilized if the objectives sought had been more specifically agreed upon in advance.

In the paragraphs which follow, one possible approach to forward planning for multiple-year lending programs is presented. There are, of course, many variations which would suggest themselves in specific country contexts. The starting point is an understanding that, almost invariably, there will be a similar set of general problem areas to be addressed in the housing sector of any developing country.

A. THE GENERAL PROBLEM AREAS TO BE ADDRESSED

There are certain general problem areas in the shelter sector of most developing countries which, while differing in importance, are usually of concern. These are the central

P A D C O

Issues which must be addressed, if a comprehensive shelter sector program is to be undertaken. Among the most common problems are the following:

1. The housing deficit is growing annually in spite of the level of the public sector response.
2. The public sector is meeting only a small percentage of the housing deficit.
3. The private sector is focused mainly on upper income, luxury housing (sometimes because of public sector policies which make it difficult for the private sector to meet low- and middle-income housing requirements).
4. The informal sector is providing the vast majority of low-income housing units, but often in an uncontrolled, illegal manner without adequate infrastructure services and totally outside public shelter sector strategies.
5. There are inadequate supplies of land in urban areas available for housing and development at reasonable prices.
6. There are overall capital resource constraints in both the public and private sectors. Housing finance institutions are inadequately developed, private sector savings are insufficiently mobilized and interest rate policies are frequently inadequate to support viable lending programs without annual subsidies.
7. There are serious deficiencies in the administrative and technical capacities of agencies responsible for the shelter sector (but this was not a problem in Korea).
8. There are constraints in the construction sector which limit capacity and lead to higher costs than necessary. In some cases, there are severe building material availability constraints.

An effective housing delivery system can only be developed when a comprehensive approach is taken to dealing with all of these problem areas. The starting point for this approach is the establishment of a National Housing Policy.

B. THE IMPORTANCE OF A NATIONAL HOUSING POLICY AND PLAN

The housing policy document defines overall objectives and responsibilities of various participants in the housing delivery system, sets broad general directions for the kinds of housing to be developed, sets priorities for delivery of housing to various income groups and other special target groups, sets general financial terms and conditions, and sets the role and dimensions of possible subsidies.

The housing plan, on the other hand, implements policy and is measurable against it. It sets forth a specific program of action to achieve certain goals in terms of selected time, place and means. It must, therefore, present quantified objectives and a more detailed methodology than the policy statement and present it so that both implementation and evaluation can be traced out clearly.

AID should view its role, in housing policy and plan formulation, as stimulating the developing country to recognize the importance of a National Housing Policy; providing limited technical assistance in determining how to prepare a National Housing Policy; and providing access to worldwide experience in order to assist the country in understanding the range of options and solutions which other countries have adopted. AID should not attempt to provide foreign advisers for the purpose of actually drafting the housing policy itself. Only when the developing country's own housing institutions and appropriate ministries are participants in housing policy formulation is there any hope that the resulting document can actually be utilized to guide implementation.

The Housing Guaranty Program should be used to support comprehensive housing policy and plan implementation and should operate within their guidelines and objectives.

If it can be assumed that the essential contribution of housing guaranty loans is for their development objectives, rather than for their capital substitution implications, then a national strategy for housing needs to be developed within which the program can serve an essentially catalytic role.

The Office of Housing has implicitly recognized this already. Its commitment to undertake shelter sector analyses and to support housing policy preparation are clearly moving toward the kind of overall strategy suggested here.

C. CONSTRAINTS TO BE OVERCOME

Nonetheless, the development of a system for establishing a multiple-year lending program is much easier in theory than in practice. There are several reasons for this:

1. The commitment to maximizing the allocation of resources to the lowest-income groups is frequently not the priority of the host country government. It should be noted that priority is more often given to assisting middle-income families to meet their shelter requirements. This position on the part of developing countries is not without merit, as all income groups are facing a critical housing shortage and middle-income groups are often thought to be among the most productive elements of a developing country's society and, therefore, deserving of priority. Nonetheless, the commitment of the international agencies such as the Office of Housing is, and must be, to work with low-income groups.

2. At any given period of time when discussions begin between the Office of Housing and a particular country, there are already in place many policies, programs and procedures which cannot be quickly or easily changed to conform with the desired objectives. There must be allowances made for the time frame required to institute changes, even after all parties are in agreement as to the desirability of those changes.

3. The total overall lack of housing finance resources within the country and the insufficient mobilization of private savings can only be corrected over a considerable time period. The rationalization of interest rates frequently requires careful study and incremental change, because of the complex financing formulas used in all development sectors, including housing, and their overall impact on national economic development.

4. The lack of technical and administrative capacity within the housing agencies in the host country cannot be corrected in the immediate future but will require staff build up and training as well as improved management procedures.

5. There is a reluctance upon the part of the political leadership of a country to take risks by instituting completely new concepts and technologies. This point cannot be overstated, because it is often the case that the political leadership will view housing with a very short-term perspective in which the emphasis will be on maximizing public housing construction of the traditional kind without much

regard for the long-term implications (which are, in fact, problems for future leadership generations and, therefore, not of major concern to the present).

This set of issues suggests that it is unrealistic for the Office of Housing to assume that a developing country will be in a position to make comprehensive changes along the lines felt necessary as a front-end commitment to participating in the Housing Guaranty Program. What is needed, therefore, is an approach in which, through multiple-year housing guaranty lending, a comprehensive series of changes can be achieved within the host country at a pace which can be supported politically and implemented technically. This requires a forward-planning approach which allows the Office of Housing to initiate support activities and provide an initial housing guaranty loan while, at the same time, achieving successive phases of fundamental change in the overall housing delivery system of the developing country.

Chapter XI

A POSSIBLE PROGRAM STRATEGY FOR THE OFFICE OF HOUSING, AID

The foregoing discussion in Chapter X of the Office of Housing and the Housing Guaranty Program suggests that a more comprehensive approach is needed. More emphasis is needed on forward planning with the host country borrowers.

A. BACKGROUND ACTIVITIES

The Office of Housing should move to establish a background research capability in-house. This should take the form of a small unit of one or two professionals who would be responsible for monitoring housing trends and developments within the developing countries. Each of the developing countries is essentially a marketing opportunity (not only in the sense of capital lending but also in accordance with the developmental objectives of the Office of Housing) as delineated by overall AID policy and United States foreign policy objectives. However, the capacity of individual developing countries to utilize housing guaranty funds and the potentials for achieving desired developmental objectives differs greatly by country and region. It should be the responsibility of the research unit to provide an up-to-date profile on the housing sectors of each of these countries using secondary source data. In this way, logical priorities for the Office of Housing can be established and initiatives can be taken rather than waiting to be contacted by potential client country agencies.

The research unit should be responsible for monitoring technical innovation in the housing sector, so that the staff of the Office of Housing is appraised of potential new techniques and approaches worthy of investigation when actually developing a specific country program.

The research unit should be utilized to undertake, through in-house staff or by contract, preparation of a casual paper series on various topics of concern about housing in the

developing countries. These papers should be disseminated throughout the developing-country world, in order to transfer needed information, to establish the Office of Housing as a leader in the field and to underscore the primary developmental objectives which it seeks to achieve through the Housing Guaranty Program.

The research unit could, also, assist in arranging appropriate training and short courses in related housing sector fields. The Office of Housing already is supporting training in the savings and loan management field through its work with the Institute of Financial Education. The need, however, is for a much greater concern with training as a method of increasing the total capacity of the housing professionals in the developing countries. Such training programs as may be instituted for particular developing country personnel should be integrated into the overall housing development program described below.

B. DEVELOPING A MULTIPLE-YEAR LENDING PROGRAM

The concept of a multiple-year program will allow the Office of Housing to work with the individual developing country to establish a series of benchmark objectives and to assess the host country to achieve them through time.

The steps contemplated in a multiple-year lending program are as follows.

1. Prepare the PID

After the initial contact is made to the Office of Housing, a PID should be prepared, as soon as possible, based on a short mission to the developing country and the review of secondary source information.

2. Prepare the Shelter Sector Analysis

Once the PID is approved, the Office of Housing should prepare the shelter sector analysis. The basic format now in use is essentially good and should be retained. Additional emphasis should be placed, however, on attempting to define the specific options which the host country might adopt in response to the problems identified. These options would become the first cut in describing the objectives of the multiple-year

program. At the same time, the shelter sector analysis could be expanded to make an initial, approximate estimate as to the number of loans and aggregate amounts which might be appropriate and to identify the various host country institutions which need to be involved as either borrowers or technical participants in the program. The nature of initial projects should be approximated as to type.

3. Prepare the PRP

The PRP should be developed for the first potential loan and should generalize the overall objectives of the multiple-year program (which would not specifically be a part of the initial PRP). The usual PRP format is entirely appropriate for this. The main point of the initial loan is to seek out a suitable project objective which is recognized by the host country as desirable and which falls within the overall AID mandate. It need not require that all housing problem issues be addressed or, even, that totally new and innovative proposals be made. The concern is to introduce the country to the values of collaboration with the Office of Housing and to form the basis for succeeding loans to implement other aspects of the overall program.

4. Prepare the PP

During preparation of the PP, negotiation as to what changes can be made easily by the host country (in accordance with the options and analysis developed in the Shelter Sector Analysis) would be taken up as well as, of course, detailed development of the initial project. A firm commitment on the part of the host country to prepare a National Housing Policy in a manner similar to that described in the Office of Housing booklet "Preparing a National Housing Policy" should be obtained as part of the PP. It should, further, be agreed that a detailed program of housing sector development will be prepared during the implementation stage of the first project (essentially the housing plan) along with the housing policy. The mutual agreement on this policy and plan document will be prerequisite to continuing the Housing Guaranty Program.

5. Project Implementation

During the implementation period of the first project, work will go ahead on the housing policy and plan. AID may or may not provide technical assistance, depending on professional resources available in the country. Even in cases when AID does not provide support, there should be periodic reviews of work to ensure that the results will be at a standard suitable for review and discussion at the conclusion of the work.

6. Second PID, PRP, PP

The second Housing Guaranty Loan should accomplish a different purpose than the first (in keeping with developmental objectives of AID rather than capital assistance alone). For example, if the original loan was for small, complete, housing units for the 40th percentile of the income curve, the second loan should introduce sites and services or settlement upgrading concepts for lower-income groups. As a prerequisite for the second loan, however, there should be a negotiation on the total Housing Guaranty Program contemplated, so that a definite level of funding is outlined and so specific primary and secondary objectives are established for achievement with each of the loans contemplated. Note that no specific time schedule needs to be established, although some time frame should be tentatively adopted. This is because each successive Housing Guaranty Loan in the package should be made available depending on the host country's achievement of the objectives (or performance criteria) established. This may or may not allow time-specific programming in any individual case.

It might appear difficult to establish such specific objectives (for example, the establishment of a housing bank, land bank, or changes in specific legislation, etc.), but if the work on the National Housing Policy and Plan has been accomplished satisfactorily, these kinds of specific objectives should have been agreed to in principle at the time the housing policy was adopted by the appropriate level of government.

The normal AID process of a PID, PRP and PP can be followed with only the second loan showing a firm commitment on the part of AID. The full program would only be a matter of intent, depending on the future availability of funds and the host country performance.

7. The Third Loan

The third loan in the series would follow the same AID review process, but would require the achievement of the agreed-upon objectives or performance standards as set forth in the second loan agreement. And so on, through completion of the multiple-year program. At any point at which the country fails to execute its performance standard agreement, the overall program comes to a halt pending successful completion of that part of the overall work program. Of course, AID evaluation is built into each successive stage of the work.

C. ADVANTAGES OF THE MULTIPLE-YEAR PROGRAMMING APPROACH

The main difference between the approach outlined above and present Office of Housing multiple-year projects is that the recommended approach is preplanned, with benchmark achievements acting as the signals to proceed. This allows for steady achievement by the developing country at its own speed, essentially utilizing its own capacity. It may be appropriate, if significant or particularly complex programs are being contemplated, for AID to provide a resident adviser to assist the host country and provide sustained support. However, it would be undesirable for AID to actually accept the technical burden of executing for the host country any of the specific steps within the program. Technical assistance should be thought of as catalytic and supportive, but the responsibility should be clearly that of the host country to fulfill the overall program objectives.

The main advantages of the planned and programmed multiple-year approach outlined here are as follows.

1. It firmly establishes AID's basic objective as developmental in nature, as opposed to merely being a capital assistance program.
2. It allows the AID structure to comprehend the total program at one time instead of pieces of a program submitted periodically. This, in turn, allows AID to carry out a more precise evaluation for each successive loan.

3. It establishes an upper limit to the total commitment of funds to any one country, based on achieving defined development objectives. Therefore, it will allow for more precise identification of the overall total authorization levels required by the Office of Housing to meet its development program objectives.
4. It will increase AID's leverage to achieve change within a given country, by increasing the total amount of funds which might be available. Simply stated, the amount of change a country is willing to undertake may be influenced by whether or not the potential funds are US\$ 5 to 10 million or US\$ 40 to 50 million.
5. It, also, allows a flexible schedule for achieving changes which can be coordinated with the real capacities and constraints of the developing country rather than through a schedule imposed from outside.
6. By identifying all the target borrowers in a comprehensive program, it will allow preliminary work to take place prior to the actual provision of the loan funds. For example, if a third or fourth loan is anticipated for a housing finance organization (say, after several loans supporting a housing corporation), preparation for the loan and, perhaps, modest technical assistance can be provided in advance and the agency can prepare to execute the loan. This should greatly increase the rate of disbursement of loans when actually made.
7. From the point of view of the developing country, this approach allows for much better national economic planning. It allows for individual agencies to plan for their specific part of the program while, at the same time, making clear the limits of the support they can expect. This will preclude agencies from becoming dependent on housing guaranty funds to sustain their level of effort. Finally,

it allows the host country to deal realistically and flexibly with its most difficult housing sector problems over a sufficiently long time frame to ensure successful innovation and change with sustained support from AID.

Appendix I

THE EXPERIENCE OF OTHER AGENCIES

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THE EXPERIENCE OF OTHER AGENCIES

INTRODUCTION

At this time, only two agencies have been involved in Korean housing in addition to AID: the United Nations (which sponsored technical assistance during 1974/75 for preparation of a national physical plan and a regional plan for the Gwangju Region); and the World Bank (which is currently financing sites and services development in Gwangju, Mogpu and Yosu as part of a regional development project in the Gwangju Region.

A. THE UNITED NATIONS GWANGJU HOUSING PROPOSALS

The recommendations of the United Nations Gwangju regional planning study with respect to housing are described in a report entitled Gwangju Region Second Cycle Report: Supplement to Volume V: Urban Land Use Plans and Housing. The key findings of the report are as follows:

1. There exists an overall shortage of housing in the Gwangju Region which is similar to the national shortage -- a relatively high-quality housing stock with a substantially greater number of households than housing units.
2. There is available little or no long-term housing finance.
3. Relatively small-scale land development projects are being carried out by cities, often in cooperation with private developers.

4. Most housing is being built by private builders, often under contract to known buyers and sometimes on speculation. The typical rate is two or three units per year and sometimes as much as eight or 10 units, but seldom more.
5. Public land development is slow because of a lack of capital financing. No financing comes out of the budgets.
6. Private land development financing is also limited because of a lack of institutionalized sources of capital.
7. Public housing programs are limited to those in the cities and KNHC's AID-financed apartments. The latter are successful as rental units but are slow in some cities as sales units.
8. Overall, there are a lack of housing sites and means of building within the reach of the lowest-income groups.
9. For most families, there must be long periods of saving and living in rental units before they are able to save enough to purchase a house.

The recommendations, although brief, generally follow along the lines being pursued in actual projects by both AID and the World Bank, as follows:

1. A study is recommended of the feasibility of expanded external finance for housing.
2. A private housing finance system is institutionalized.
3. Comprehensive land studies, land banking for low-income housing and increases in the property tax rate are recommended to discourage land speculation.

4. A revolving fund is suggested to finance purchase and development of land by cities.
5. Training is undertaken in housing, land development and management.
6. Criteria are established for allocating credit in accordance with social objectives of providing housing for low-income persons, rather than in accordance with the size and quality of the house.
7. Subsidies are eliminated except for the lowest-income groups.
8. Expandable minimum housing is investigated.
9. A national center for research in housing and urban development is established.

Steps have been taken recently in Korea to reduce land speculation, not through increased property taxes but through the imposition of a capital gains tax on land sales. National housing funds are being used at present for smaller housing units whereas, in Gwangju in 1975, they were restricted to 18-pyong units or larger. Consideration is being given in the Mogpu site and in MOC to the possibility of core housing as a means of reducing initial government outlay. In addition, the research facilities of KHNC have been expanded and strengthened considerably.

B. THE WORLD BANK GWANGJU REGION HOUSING PROJECTS

The World Bank has been interested in Korean housing since 1974. During this time, it has discussed with ROKG two housing projects of relevance to the present case study. The first was a development project for low-income expandable core housing to be located northeast of Jamsil, south of the Han River in Seoul. The Government later decided to relocate the project to a number of secondary cities. The second is a sites and services project at three sites in separate cities



Figure 16. World Bank-financed small sites development project, near Gwangju.

in the Gwangju Region. It was accepted by the Government and is now under construction.

The Gwangju World Bank housing project was intended by the World Bank to accommodate a mix of population groups, predominately low-income but also middle- and high-income. Three sites were selected in the cities of Gwangju, Mogpo, and Yosu. The three are roughly equal in size with 500 to 700 units in each project. They are sufficient to support a small market and basic social services. The range of plot sizes was from 35 to 70 pyongs, with about 75 percent in the smallest category. The project has been redesigned to produce a larger number of smaller lots in the range of 28 to 35 pyongs. Instead of housing construction by site purchases, core-expandable houses in the range of 10 to 12 pyongs are to be constructed by KNHIC which will require some finishing by the home owners. To reduce costs, the units will be in a duplex and quadraplex configuration.

The World Bank and the MOC appear to have reached agreement on an approach which minimizes public expenditures through core house construction and a limited degree of self-help building. The infrastructure standards as built in the Gwangju project (the only one visited by the research team) are very high, with substantial earthworks, a large box culvert running the length of the project, and full house-to-house water supply and sewerage.

Interviews were held with the MOC Section Chief of the Regional Planning Section of the National Planning Bureau and with the Chief of the Planning Research Unit, Gwangju Regional Development Unit. In addition, a visit was made to the site of the Gwangju City project and an interview was held with the resident site engineer.

The project marketing is to be basically competitive, through newspaper advertisement. The marketing plan is currently under preparation.

Depending upon whether the lot has a house constructed on it by the public agency or not, loans are available separately for lot purchase and housing finance. The terms of the lot purchase loans are to be as follows:

<u>Pyong Lot Size</u>	<u>Percent Down</u>	<u>Interest Rate</u>	<u>Terms</u>
35	20	12	15
50	50	12	15
70	Cash Only		

The terms of the housing finance loans are as follows:

<u>Pyong Lot Size</u>	<u>Percent Down</u>	<u>Interest Rate</u>	<u>Terms</u>
35	20	12	15
50	20	12	15
70	50	12	15

Thus, the project breaks ground in providing long-term finance for lot purchase. This is something that has not been tried previously in Korea.

It was reported by the regional representative interviewed that the international competition procedures of the World Bank for construction bids were regarded as cumbersome and time-consuming. He regarded them as wasteful of effort in Korea because the local construction firms are able to provide services at costs substantially below those of international contractors.

1. Summary

At the outset, it must be realized that the World Bank Gwangju projects (although they do add several useful dimensions to Korean housing policy), are not equivalent to sites and services projects in the sense used to describe such projects in less-developed countries in tropical areas. They are now supporting lower-cost small-size housing development projects, with a provision for a portion of the housing to be built by self-help techniques.

The infrastructure standards and land development costs are quite high. However, by reducing plot and house sizes, it is expected that on the smallest lot the 10-pyong core unit will cost less than the 10- or 7.5-pyong apartment units currently being constructed by KNHHC. The issue of housing standards remains to be resolved with the Koreans as the project is encountering many of the same problems that have faced AID in recent years. The recent readjustments in the nature of the Gwangju project represent a long step toward achieving lower-cost housing.

2. Effectiveness in Implementation

The loan and project agreements were signed in January 1975 and construction began in July 1976. The delay in start-up was a result of the time taken to set up the unit (GF J) to implement the project.

3. Target Groups

Analysis of the costs of the project indicates that the lowest-income groups reached will be lower than those reached through the 7.5-pyong apartment program of KNHC because of the easier terms available for site and house loans and because of the lowered costs made possible by reducing site sizes.

4. Speculation

There is some concern by Korean professionals that there will be insufficient demand in Mogpu or Yosu which will result in slow sales. Furthermore, it is feared that there will be substantial land speculation, in anticipation of rising land prices. There is proposed an administrative restriction on resale. Speculation may be constrained by charging market prices for the larger lots and the reduction of lot sizes so that they will not be as valuable for middle-income housing.

5. Approach to Housing

Clearly, the project attempts to break through by introduction of core housing and self-help housing concepts. The overall concept of strong public support for a small sites development project adds a useful dimension to Korean housing policy in the secondary cities. This, combined with the AID squatter upgrading projects and apartment projects (the latter in higher land-value locations), holds promise of meeting the most urgent Korean lower-income housing needs. The extent to which the approach will be accepted by the Koreans remains to be determined, however. It is apparent that the lot sizes and infrastructure standards must be substantially reduced to generate housing for the lowest-income groups.

6. Costs

The cost analysis presented in this section indicates that the costs of a 35-pyong lot with a public or contractor-built 13-pyong house are likely to be roughly the same as for a 13-pyong KNHC-built apartment. If cost savings are achieved, they are likely to be a result of lower construction standards as well as smaller lot and house sizes. Substantial cost reductions can be achieved, however, either by constructing a core house and allowing completion by self-help techniques or by allowing complete self-help construction. It is possible, also, that a contractor-built house could cost less than an apartment, if overhead and labor costs are kept sufficiently low.

Thus, the argument that a small-sites development project can reduce costs is not completely persuasive by itself. It becomes more persuasive when coupled with the arguments that the purchaser of a small lot has more opportunity to add to his house as required, that he benefits more directly from increases in land value as a result of urban growth, and that the overall public expenditures can be reduced by allowing incremental additions to housing.

7. Financing

The Gwangju project breaks important new ground in providing long-term financing for lot purchase. It also provides what is basically a line of credit for housing construction linked to a particular project, thus increasing the project's likely financial viability.

8. Assistance in Self-Help Building

It is reported that a guide for self-help builders is currently under preparation. If completed and used in Korea, this would be a useful addition to the tools available to improve low-income housing.

TABLE 22

Project Costs of World Bank
Gwangju Housing Project
(in millions of won)

	Civil Works 1/	Land Acqui- sition 1/	Profes- sional Services 2/	Total
Gwangju	559	357	38	954
Mogpo	847	138	40	1,025
Yeosu	610	105	32	747
Totals	2,016	600	110	2,726

NOTES: 1/ Current ROKG estimates, based upon initial Bids. 2/ 1974 IBRD appraisal report.

TABLE 23

Lot Sizes of World Bank
Gwangju Housing Project

	Lot Size (Pyongs)	Number of Units	Percent of units	Total Area (pyongs)
Gwangju	35	1,371	75	47,905
Mogpo	50	290	16	14,500
Yeosu	70	177	9	12,390
Totals		1,838	100	74,875

NOTE: Cost per pyong = 36,410 won.

SOURCE: 1974 IBRD appraisal report.

TABLE 24

Lot and Housing Costs of
World Bank Gwangia Housing Project

Lot Size 1/	House Size	Percent Cross- Subsidy	Cross- Subsidized Lot Costs	House Cost 2/	Total Cost
35	12-15	20	1,019,500	1,701,000	2,720,500 3/
50	15-18	10	1,638,500	2,079,000	3,717,500
70	18-25	0	2,548,700	2,709,000	5,257,700

NOTES: 1/ Pyongs. 2/ At 126,000 won per pyong.
3/ Could be reduced to approximately 2,100,000 won by self-building a 12 pyong house or to approximately 1,600,000 won by self-building a 7 pyong core house.

SOURCE: 1974 IBRD appraisal report.

Appendix II
STATISTICAL SUMMARY OF HIG PROJECTS

Project HG 001: 27
Banpo Apartments Phase II

1. Application:
April 1972
2. Location:
Seoul
3. Likely Income Level of Occupants:
65th percentile and above.
Total Cost -- W 5,364 million.
Amount of Loan -- US\$ 10 million, W 4,000 million. 1/
Likely Population Accommodated -- 7,450. 2/
Land Required -- 32,365 pyongs.
4. Terms:
Financing -- 74.57 percent.
Interest rate -- 8.0 percent plus 2.14 percent maintenance-of-value fee.
Increasing variable payments with 24-year repayment period.
Downpayment -- W 915,600.
Limited monthly payment -- W 14,856.
5. Units:
Number -- 1,490
Type -- 3 bedroom in five-story building.
Size -- 22-pyong apartments.
Average Costs -- W 3,600,000.
6. Construction:
Type -- Prefabricated and on-site.
Method of heating -- Central.
7. Method of Marketing and Sale:
Model unit on site.
Choice by lottery with 6,300 applicants for 1,490 units.
8. Present Status:
Complete.
9. Commentary:
An upper-middle-income project implemented with great success.
8,300 applicants for 1,490 apartments.

NOTES: 1/ At US\$ 1.00 = W 400.
2/ At 5 persons per unit

SOURCE: Project Paper and Implementation Agreement.

Project HG 002:

Six Cities: Apartments

1. Application -- March 1974
Implementation Agreement -- April 1974
2. Locations:
Seoul, Pusan, Taegu, Taejeu, Kwangju, Inchou.
3. Likely Income Level of Occupants:
25th percentile
Total Cost -- W 11,380 million.
Amount of Loan -- US\$ 20 million, W 8,000 million 1/
Likely Population Accommodated -- 18,500 2/
Land Required -- n.a.
4. Terms:
Financing -- 70 percent.
Interest rate -- 8.75 percent.
Payments -- Level payments with 10-year grace period and
a 25-year total repayment period.
Downpayment -- 13-pyong, W 653,000; 15-pyong, W 1,010,000.
Monthly payment -- 13-pyong, W 11,280; 15-pyong, W 17,440.
5. Units:
Number -- 1,000 2 bedroom; 2,700 3 bedroom.
Types -- 13-pyong, 15-pyong.
Size -- 5-story apartments.
Average Cost -- 13-pyong, W 2,200,000; 15-pyong, W 3,400,000.
6. Construction:
Type -- On-site.
Method of heating -- Central.
7. Method of Marketing and Sale:
Model unit on-site.
Lottery
8. Present Status:
Complete.
9. Commentary:
Smaller units at lower cost with very attractive
financing.

NOTES: 1/ At US\$ 1.00 = W 400.
2/ At 5 persons per unit.

SOURCE: Project Paper and Implementation Agreement.

Project HG 003

Apartment

1. Application -- March 1975.
Implementation Agreement -- July 1975.
2. Location:
Seoul, Pusan, Taegu, Ulsan, Changwon, Suwon, Sunghnam.
3. Likely Income Level of Occupants:
25th to 65th percentile.
Total Cost -- W 24,000 million.
Amount of Loan -- US\$ 25 million = W 12,000 million 1/
Likely Population Accommodated -- 46,000 2/
Land Required -- N.A.
4. Terms:
Financing -- 50 percent financed in Seoul. 50 percent
financed in other cities with supplementary financing
from Korean sources of 20 percent to be repaid in five
years at 9.5 percent interest.
Interest rate -- 9.5 percent.
Payments -- 10-year grace period and a 26-year total
repayment period.
Downpayment -- 13-pyong, W 1,244,000; 15-pyong, W 1,433,200.
Monthly payment -- 13-pyong, W 9,833; 15-pyong, W 20,633.
Supplementary loan -- 13-pyong, W 11,346; 15-pyong, W 23,787.
5. Units:
Number -- 6,200 2 bedroom; 3,000 3 bedroom.
Types -- 2 bedroom in five-story apartments, 3 bedroom
in five-story apartments.
Size -- 13-pyong; 15-pyong.
Average Cost -- 13-pyong, W 2,468,000; 15-pyong, W 2,866,400.
6. Construction:
Type -- N.A.
Method of heating -- Ondol.
7. Method of Marketing and Sale:
N.A.
8. Present Status:
Complete.
9. Commentary:
The same size units as HG 002 but the costs of the 15-pyong
average units have been reduced. On the other hand, the
terms of financing were made less favorable to the
buyer, by providing less long-term finance.

NOTES: 1/ At US\$ 1.00 = W 480.
2/ At 5 persons per unit.

SOURCE: Project Paper and Implementation Agreement.

Project 4G 004

Housing Improvement in Seoul City
(Upgrading Project)

1. Application -- March 1975.
Green Book -- May 1975.
Implementation Agreement -- July 1, 1976.
Construction Started -- September 1976.
2. Location:
Seoul
3. Likely Income Level of Occupants:
15th to 60th percentile.
Amount of Loan -- US\$ 10 million, US\$ 5 million on contract.
Likely Population Accommodated -- 20,000 (preliminary
estimate pending completion of further project plans).
4. The project contained the following components:

Infrastructure Improvements -- Access roads, utilities,
sewers, storm drainage and slope protection, green areas,
community facilities, demolition of existing dwellings
(to make way for infrastructure).

Land Sales -- Up to 90 percent financing. 20 to 30 percent
discount for cash payment (20 percent for lots larger
than 30 pyong and 30 percent for up to 30 pyong).

Home Improvement Loans -- These loans are available to
occupants of dwellings to be demolished to make way
for infrastructure or because dwellings are condemned
as unsafe for habitation. The loans will be used to
finance dwellings not exceeding 15 pyongs and not to
exceed W 1,000,000 (exclusive of land cost) and if con-
struction is inside of improvement area; when outside
not to exceed W 1,500,000. A 25-year repayment period.
5. Interest Rate:
U.S. investors -- 8.5 percent.
AID fee -- .5 percent.
Total -- 9.0 percent.
6. Present Status:
Under construction. Some infrastructure installed.
Expected completion of infrastructure improvements in
1977.
7. Commentary:
Excellent project administrative and financial plan. A
basis for subsequent projects.

SOURCE: Project Paper, Implementation Agreement, and
Seoul City Redevelopment Plan.

Project HG 005

Apartments

1. Application -- July 1975.
Implementation Agreement -- July 1976.
2. Location:
Seoul, Pusan, Taegu, Inchon, Pohang, Masan.
3. Likely Income Level of Occupants:
10th to 45th percentile.
Total Cost -- W 14,400 million.
Amount of Loan -- US\$ 15 million = W 7,200 million 1/
Likely Population Accommodated -- 23,550 2/
Land Required -- N.A.
4. Terms:
Financing -- 50 percent financed in Seoul. 70 percent
financed in other cities.
Interest rate -- 9.45 percent.
Payments -- Level payments with 10-year grace period and
a 25-year total repayment period.
Downpayment -- 7.5-pyong, W 961,500; 10-pyong, W 1,157,000
to W 1,286,000; 13-pyong, W 1,374,000 to W 1,471,000.
Monthly payment -- 7.5-pyong, W 7,670; 10-pyong, W 9,043
to W 14,069; 13-pyong, W 10,738 to W 16,099.
5. Units:
Number -- 500 1 bedroom; 1,440 2 bedroom; 2,770 3 bedroom.
Type -- 1 bedroom in five-story apartments, 2 bedroom in
five-story apartments, 3 bedroom in five-story apartments.
Size -- 7.5-pyongs; 10-pyongs, 13-pyongs.
Average Cost -- 7.5-pyong, W 1,963,000; 10-pyong,
W 2,314,000 to W 2,572,000; 13-pyong, W 2,748,000 to
W 2,943,000.
6. Construction:
Type -- N.A.
Method of heating -- Ondol and Central.
7. Method of Marketing and Sale:
N.A.
8. Present Status:
Complete and units occupied except some 7.5-pyong units.
9. Commentary:
Contains the smallest units built to date and is likely
to reach income groups below the 20th percentile.

NOTES: 1/ At US\$ 1.00 = W 480.
2/ At 5 persons per unit.

SOURCE: Project Paper and Implementation Agreement.

Appendix III

STATISTICAL DATA

TABLE 25
Housing Situation by Site

<u>Size</u> <u>(pyongs)</u>	<u>Nationwide</u>		<u>Large Cities</u>		<u>Other Cities</u>		<u>Rural Areas</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
7 or less	769,744	17.7	139,493	17.6	120,997	19.9	509,254	17.2
8 to 9	654,736	15.0	89,542	11.3	77,515	12.8	487,679	16.5
10 to 14	1,405,673	32.2	231,731	29.3	195,409	32.2	978,533	26.6
15 to 24	1,195,578	27.4	239,902	30.4	168,353	29.7	787,323	26.6
25 to 39	269,088	6.2	63,350	8.0	34,842	5.7	170,896	5.8
40 to 59	47,704	1.1	17,658	2.3	7,482	1.2	22,564	0.7
60 or more	<u>17,288</u>	<u>0.4</u>	<u>8,654</u>	<u>1.1</u>	<u>2,786</u>	<u>0.5</u>	<u>5,847</u>	<u>0.2</u>
Total	4,369,811	100.0	790,331	100.0	607,384	100.0	2,962,096	100.0

SOURCE: EPB, Total Population and Housing Census Report, 1970.

TABLE 26
Housing Situation by Types

Type	Nationwide		Large Cities		Other Cities		Rural Areas	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Single Detached	4,154,910	95.3	693,820	87.7	560,330	92.3	2,900,760	96.0
Public Housing	179,433	4.1	84,601	10.7	39,819	6.5	55,013	1.9
Chained Housing	146,235	3.4	55,741	7.1	37,460	6.1	53,034	1.8
Apartment	33,198	0.7	28,860	3.6	2,359	0.4	1,979	0.1
Others	<u>25,468</u>	<u>0.5</u>	<u>11,910</u>	<u>1.5</u>	<u>7,235</u>	<u>1.2</u>	<u>6,323</u>	<u>0.2</u>
Total	4,349,811	100.0	790,331	100.0	607,384	100.0	2,962,096	100.0

SOURCE: EPB, Total Population and Housing Census Report, 1970.

TABLE 27
Housing Situation by Area and Occupancy
(in thousands)

Classification of Houses	Whole Country		Big Cities		Other Urban Areas		Rural Areas	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Self-owned	3,996,198	91.7	682,731	86.4	515,349	84.8	2,798,118	94.5
Rent	240,708	5.5	91,760	11.6	75,947	12.5	73,001	2.5
Free	120,923	2.8	14,820	1.9	15,707	2.6	90,396	3.0
Unknown	2,133	0.1	1,009	0.1	536	0.1	588	0.0
Total	4,359,962	100.0	790,320	100.0	607,539	100.0	2,962,103	100.0

SOURCE: EPB, Total Population and Housing Census Report, 1970.

TABLE 28

Housing Situation by Number of Rooms

Number of Rooms	Number of Houses	Percent
1	322,004	7.4
2	1,531,517	35.1
3	1,365,522	31.3
4	683,506	15.7
5	257,815	5.9
6	107,246	2.5
7	40,821	0.9
8	23,145	0.5
9	10,482	0.2
10	17,712	0.4
Total	4,359,811	100.0

SOURCE: EPB, Total Population and Housing Census Report, 1970.

TABLE 29

Population Growth Forecasts in the May 1975
Korea Housing Policy

Year	Households		Urban Households		Population		Urban Population		Percent of Total
	Number	Percent Increase	Number	Percent Increase	Number	Percent Increase	Number	Percent Increase	
1972									
1973	5,934		2,958		32,905		15,136		46.0
1974	6,071	2.31	3,134	5.95	33,399	1.5	15,951	5.38	47.76
1975	6,220	2.45	3,318	5.87	33,900	1.5	16,744	4.97	49.39
1976	6,372	2.44	3,505	5.64	34,408	1.5	17,548	4.80	51.00
1977	6,528	2.45	3,694	5.39	34,924	1.5	18,347	4.55	52.53
1978	6,682	2.36	3,889	5.28	35,413	1.4	19,157	4.41	54.10
1979	6,833	2.26	4,085	5.04	35,873	1.3	19,960	4.19	55.64
1980	6,986	2.24	4,309	5.48	36,329	1.27	20,910	4.76	57.56
1981	7,148	2.32	4,505	4.55	36,811	1.33	21,669	3.63	58.87

SOURCE: Korea Industrial Development Research Institute, Study on Housing Policy Formulation, KIDI, December 1974.

TABLE 30

Housing Situation by Number of Persons

No. of Persons	No. of Houses	Percent
1 to 3	621,889	14.3
4	450,932	10.3
5	607,004	13.9
6	688,172	15.8
7	607,760	13.9
8	437,065	10.0
9	287,254	6.6
10	192,462	4.4
11	109,871	2.5
12	81,463	1.9
13	59,777	1.4
14	45,971	1.1
15 to 19	111,543	2.6
20 to 24	35,443	0.8
25	23,206	0.5
Total	4,359,811	100.0

SOURCE: EPB, Total Population and Housing Census Report, 1970.

TABLE 31

**Comparison of Population Forecasts
(Population x 000)**

Year	Housing Policy and Construction Plan (1975)	Fourth Housing Construction Plan (1976)
1972	32,416	
1973	32,905	
1974	33,399	
1975	33,900	35,281
1976	34,408	35,875
1977	34,924	36,450
1978	35,413	37,029
1979	35,873	37,618
1980	36,329	38,219
1981	36,811	38,834
1977-1981	2,403	2,959
1972-1981	4,964	n.a.

SOURCE: PADCO Analysis.

TABLE 32
Comparison of Forecasts of Number of Households
(Number of Households x 000)

Year	Housing Policy and Construction Plan (1975)		Fourth Housing Construction Plan (1976)
	Total	Urban	
1972	5,774	2,705	
1973	5,934	2,958	
1974	6,071	3,134	
1975	6,220	3,318	6,474
1976	6,372	3,505	6,644
1977	6,528	3,694	6,813
1978	6,682	3,889	6,987
1979	6,883	4,085	7,165
1980	6,986	4,309	7,350
1981	7,148	4,505	7,541
1977- 1981	776	1,000	897
1972- 1981	1,498	1,910	n.a.

SOURCE: PADCO Analysis.

TABLE 33

May 1975 Housing Plan
Projection of Housing Investment by Income Group
(in billion won, constant 1974 prices)

Income Group	Housing Demand ^{1/}	Construction Cost ^{2/}	Total Investment	Total	Budget Appropriation	Housing Lottery	Housing Bond	Contract Savings Fund	Foreign Capital	Miscellaneous	Private	Remarks
Lowest												
Sales	94	2,200	154	140	80	22	38	-	-	-	14	Reserved Land Price included 100% public
Rental		1,500	36	36	16	-	-	-	20	-	-	
Low	100	1,600	160	112	40	-	14	-	58	-	48	70% public
Lower Middle	166	1,700	281	168	-	-	103	-	18	47	113	60% public
Upper Middle	200	1,800	360	180	-	-	-	134	-	46	180	50% public
High	821	2,000	1,640	-	-	-	-	-	-	-	1,640	100% private
Highest	444	2,500	1,110	-	-	-	-	-	-	-	1,110	100% private
Total	1,825	(2,027)	3,741	636	136	22	155	134	96	93	3,105	(17% public)
Remodeled Areas	178	1,600	282	152	-	-	12	38	30	72	130	54% public
Rural Areas	84	700	58	41	17	-	24	-	-	-	17	70% public
Total	2,087	(1,955)	4,081	829	153	22	191	172	126	165	3,252	
			(100)	(20)	(100.0)	(18.5)	(2.7)	(230)	(20.7)	(15.2)	(19.9)	(80)

NOTES: 1/ Thousand units. 2/ Thousand won.

SOURCE: Ministry of Construction, Korea National Housing Policy and Long-Term Construction Plan.

TABLE 34

**Fourth Housing Construction Plan
Housing Investment by Year**
(in billions of won, 1975 prices)

Year	Total	Percent of GNP
1966	21.18	2.1
1967	28.10	2.2
1968	48.67	3.0
1969	55.35	2.7
1970	87.93	3.4
1971	101.14	3.2
1972	104.66	2.7
1973	157.92	3.2
1974	299.27	4.4
1975	402.00	4.4
1976	380.00	3.6
1977	433.00	3.8
1978	475.00	3.8
1979	516.00	3.8
1980	580.00	3.9
1981	637.00	3.9

SOURCE: EPB, Fourth
Housing Construc-
tion Plan

TABLE 35

Public Housing Costs
and Housing Loan Ceilings

Py Area, Type and Size	Standard Space	Construction Cost per Pyong	Construction Cost per House	Loan	Loan as Percent of Cost
Apartments for Lease	13	210	2,730	1,200	44
Apartments for Sale in Lots:					
12-15 pyong	12	180	2,160	1,500	69
16-20 pyong	16	180	2,880	1,800	63
21-25 pyong	21	180	3,780	2,000	53
Duplex Houses:					
12-20 pyong	12	120	1,440	900	63
21-25 pyong	21	120	2,520	1,200	48
Independent Houses in Medium and Small Cities	18	130	2,340	1,200	50
Rural Houses:					
Up-level	18	100	1,800	900	50
Farm Houses	15	70	1,050	600	57
Houses for Resettlement of the Former Resi- dents of Indus- trial Estates:					
12-15 pyong	12	120	1,440	1,000	69
16-20 pyong	16	120	1,920	1,100	57
21-25 pyong	21	120	2,520	1,300	52
Apartments for Former Residents of Removed Houses in Cities	9	180	1,620	1,000	62

SOURCE: Ministry of Construction. 1976 National Housing Construction Plan and Guiding Principles for Fund Management. (Typed English Translation).

TERMS AND ABBREVIATIONS

A. APARTMENT AREAS

<u>Pyongs</u>	<u>Square Feet</u>
1.0	35.5
7.5	265.0
10.0	355.0
13.0	460.0
15.0	532.0
22.0	781.0

B. CURRENCY

1971 to 1974	W 400 = US\$ 1.00
1975 to date	W 480 = US\$ 1.00

C. POPULATION

	<u>1970</u>	<u>1975</u>	<u>Percentage of Growth</u>
Korea	31.4 million	34.7 million	10.5
Seoul	5.5 million	6.8 million	24.5
Pusan	1.9 million	2.5 million	30.0
Urban	12.9 million	16.7 million	29.7

D. LIST OF KEY KOREAN GOVERNMENT AGENCIES IN THE HOUSING SECTOR

1. The Economic Planning Board (EPB)

The EPB is placed directly under the Prime Minister and is responsible for establishing overall plans for development of the national economy, formulation and execution of the budget, overall investment and technological development, and international economic cooperation.

2. Ministry of Construction (MOC)

The MOC is responsible for planning and development of national territory, all public works, urban development and housing. The Korean National Housing Corporation reports to MOC.

3. Ministry of Finance (MOF)

The MOF has charge of currency, finance and taxation, foreign exchange and control of public property. The Korean Housing Bank reports to MOF.

4. Ministry of Home Affairs (MOHA)

MOHA exercises supervision over all local governments except Seoul City which enjoys Ministerial status.

5. Korean National Housing Corporation (KNHC)

The KNHC was established in 1962. Its functions are: to construct, improve, sell and lease housing; to construct and manage housing under contract; to construct and manage community facilities for large housing projects; to improve housing construction materials; and to develop and distribute housing sites.

6. Korean Housing Bank (KHB)

The KHB was established in 1967. Its functions are: to manage and loan funds for purchase and construction of new housing and the development of housing sites; to manage and loan fund to local governments and small- and medium-scale businesses to produce or deal in standard planned, low-cost housing materials; to accept deposits and housing installment deposits; to issue housing bonds; and to conduct a housing lottery.

7. Seoul City Government

Seoul City's mayor enjoys Cabinet status and the city has more independence than other Korean cities.

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